



Andra AP-fonden
Second Swedish National Pension Fund - AP2

Second Swedish National Pension Fund/AP2

Annual Report 2011



“Free public transport – that’s what I enjoy most about being a pensioner.”

Berith, 78 years old



The Second AP Fund asked some Gothenburg pensioners what was best about being a pensioner. We would like to thank all of you who took part and for the inspiration it gave in producing this annual report.

The photo for the cover of this year's annual report, which won Göteborgs-Postens photo competition as part of last year's edition of the Gothenburg Culture Festival, was taken by pensioner Lars Dalek. Our thanks for his permission to use the picture.



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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). Figures in parentheses refer to the preceding year.

Since 2011 marked the Second AP Fund's tenth anniversary, economic development is – where possible – reported from the date the Fund was established.

*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, where space requires, AP2.

2011 in brief

2011 has been a year of extreme uncertainty on financial markets – in which, among other events, the Stockholm Stock Exchange saw a 13.5-percent decline in its value.* Over the full twelve months, the Fund's return on the total portfolio amounted to -1.9 percent, a figure less than the decline noted by the major stock markets.

The Second AP Fund's long-term strategy and ongoing diversification of the portfolio and ongoing diversification of the portfolio have led to a good spread of risk and have counteracted the negative development. During the spring, the Fund implemented its most dramatic change so far in the strategic portfolio in the form of a comprehensive reallocation from fixed-income securities and Swedish equities to equities and government bonds in emerging markets.

* SIX RX

The net result was SEK -4.6 billion. The Fund's return relative to benchmark index was -0.3 percent, excluding alternative investments and costs.

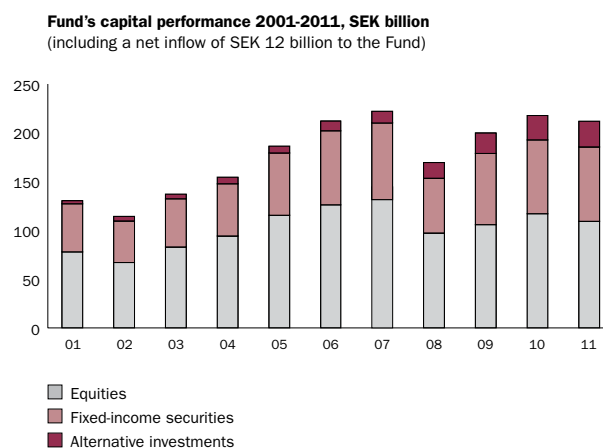
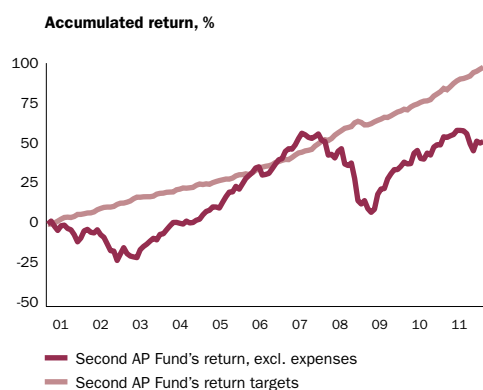
- The Second AP Fund's assets under management totalled SEK 216.6 (222.5) billion on December 31 2011, against which net outflows to the national pension system were charged in an amount of SEK -1.2 (-4.0) billion.
- The net result for the year amounted to SEK -4.6 (22.3) billion.
- The Fund's return on the total portfolio was -1.9 (11.2) percent, excluding commission fees and operating expenses. Including these expenses, the portfolio noted a return of -2.1 (11.0) percent.

- The relative return on the Fund's overall portfolio, excluding alternative investments and expenses, was -0.3 (0.8) percent, 0.16 percent of which was attributable to implementation effects.
- The return on alternative investments was 8.4 (15.0) percent.
- Fixed-income securities generated a return of 6.8 (0.5) percent.

Events since the close of the report period

In January 2012, Cityhold Property, the real-estate company that the Second AP Fund owns jointly with the First AP Fund, made its first acquisition when the company purchased the One Kingdom Street office complex, next door to Paddington Station in central London.

Review	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Fund capital, SEK million	216 622	222 507	204 290	173 338	227 512	216 775	190 593	158 120	140 350	117 090	133 493
Net result for the year, SEK million	-4 645	22 258	34 858	-55 058	8 718	24 506	29 568	16 119	20 693	-21 405	-5 005
Return on total portfolio, excl. commission fees and operating expenses, %	-1.9	11.2	20.6	-24.0	4.2	13.0	18.7	11.6	17.8	-15.3	-3.7
Relative return on quoted assets, excl. alternative investments, commission fees and operating expenses, %	-0.3	0.8	0.7	-1.8	-0.4	0.2	0.2	-0.6	-0.5	-0.4	1.7
Active risk ex post, %	0.3	0.3	0.6	1.0	0.7	0.7	0.5	0.5	0.6	1.0	1.7
FX exposure, %	16	12	10	12	11	12	11	10	8	7	10



This is the Second AP Fund

With SEK 216.6 billion under management in virtually every asset class and all parts of the world, the Second AP Fund is one of northern Europe's largest pension funds. A secure and stable manager of assets, the Fund is tasked with an important assignment by the Swedish Government – maximizing the long-term return on Swedish pension assets.

The Second AP Fund is one of five buffer funds within the Swedish pension system. The Second AP Fund shall maximize long-term return at low risk. In conjunction with the other buffer funds, the Fund is tasked with maintaining reasonably consistent pension levels, even during periods affected by peaks in the number of retirees, or by an economic downturn.

The Second AP Fund shall adopt a long-term approach, with a view to securing the managed buffer capital over the long-term. The Fund's scientifically-based strategic management model includes long-term forecasts covering demographic, socio-economic and capital-market developments.

Long-term strategy vital to solid return

The Fund's consistent and long-term approach to the management of assets under its care has helped ensure a solid return. Put another way, one might say the Fund has been tasked with creating the pension equivalent of a 'land of milk and honey'. In this instance, 'milk' stands for a solid return on assets and 'honey' for a long-term – as well as responsible and sustainable – approach to investment. The world has experienced several major stock market declines in recent years, but the Second AP Fund has performed well in comparison with similar funds, whether seen from a national or international viewpoint.

Cost-efficient fund management

The Second AP Fund is an efficient manager. Seen in an international context, the Fund's management costs are on a par with those of similar funds. The Fund works consistently to reduce administrative costs where possible – without comprising its focus on an optimal return.

An attractive place to work – with exceptional competence

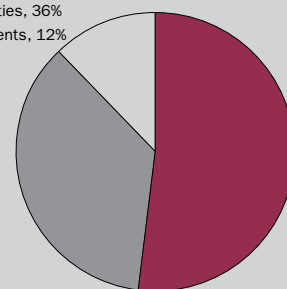
The Second AP Fund is an attractive employer that numbers just over 50 staff, all of whom are centrally located in Gothenburg. The Fund employs some of the foremost in their respective fields, as portfolio managers, analysts and other specialists.

Sustainable and involved ownership

The Fund adopts an active approach to ethical and environmental issues, with a view to promoting sustainable investment. Long-term investment requires companies capable of long-term sustainability, enabling them to generate a solid return that can provide a secure buffer for future pensions.

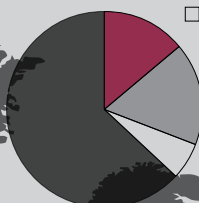
Second AP Fund portfolio by asset class, December 31, 2011

■ Equities, 52%
■ Fixed-income securities, 36%
□ Alternative investments, 12%



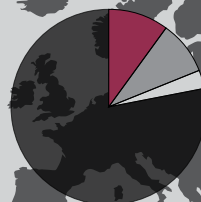
Sweden

■ Equities, 14%
■ Fixed-income securities, 17%
□ Alternative investments, 6%



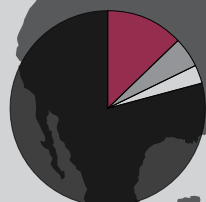
Europe

■ Equities, 10%
■ Fixed-income securities, 9%
□ Alternative investments, 3%



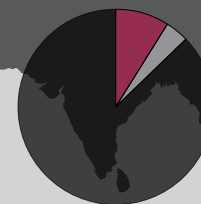
North America

■ Equities, 13%
■ Fixed-income securities, 5%
□ Alternative investments, 3%



Emerging markets

■ Equities, 9%
■ Fixed-income securities, 4%



Second AP Fund assets by geographic region, December 31, 2011



The Second AP Fund – from then to now

2011 was the year in which the reformed Swedish national pension system and the Second AP Fund celebrated their joint tenth anniversary. At such a point in time, it's difficult not to reflect over the past few years and consider how things have progressed. Did they work out as planned? Is the pension system functioning as originally conceived? How does the Second AP Fund of 2011 differ from that of 2001?



Second AP Fund CEO Eva Halvarsson is here seen with Beijing's Olympic Stadium in the background. In connection with a reallocation of portfolio assets to emerging markets, the Fund visited India and China during the autumn.

Sweden has a robust pension system, one that has proved able to withstand the strains imposed on it. This is especially clear when compared with other parts of Europe, where pensions are a cause of serious conflict.

The system has also shown itself to be resilient, in spite of the fact that it has had to operate under conditions not anticipated when the plans were originally drafted. At the time, a broad majority expected greater stock market stability. Market values had been rising for forty years, but the past decade saw stock market fluctuations beyond all reasonable prediction. Since the introduction of Sweden's reformed pension system, we have experienced the effects of an IT bubble and a financial crisis, and now find ourselves in the midst of a debt crisis. Nonetheless, the AP funds have functioned as the buffer funds they were meant to be. On a number of occasions, the funds have helped eliminate the need to apply the 'brake', enabling upward adjustment of pension disbursements as planned.

Adapting to current conditions

The Second AP Fund has responded to market developments by adopting an increasingly diversified strategic portfolio. What originally comprised just equities and fixed-income securities has developed into a portfolio that features a complex composition of assets, where risk is spread between different classes of asset and geographical markets.

This development has been ongoing since the Fund's inception, but the process intensified in conjunction with the 2008 financial crisis. One critical insight derived from the realization that, in practice, an extremely high proportion of portfolio risk focused on traditional equity markets. This led to a partial revision of the Fund's investment strategy. We decided on a reweighting of the portfolio, from quoted to unquoted assets, from established markets to emerging markets. In the case of unquoted assets, we have initiated direct investment in companies engaged in the forest and agricultural sectors.

The first consequence of this revised strategy was the Fund's investment in convertibles in 2008, which proved a good move. Since then, we have made our first

investments in forest and real estate, as well as reallocating an increasing share of the portfolio to emerging markets.

Agricultural investment

In 2011, we followed up on this by forming a joint venture with US pension fund TIAA-CREF, focused on investment in agricultural real estate, mainly in the USA, Australia and Brazil. TIAA-CREF is a leading pension fund manager with considerable experience in agricultural investment. Prior to this collaboration, we conducted an evaluation that, as well as other aspects, examined the fund's values and stance on sustainability issues.

A new real-estate company

During the year, we also formed a real-estate company, Cityhold Property, in association with the First AP Fund.

Real estate has always constituted an important investment sector for the Second AP Fund, and involvement in Vasakronan and Norrporten has been a positive experience. Cityhold Property invests in commercial real estate in major European cities, thereby complementing the Fund's current real-estate portfolio.

Trend towards emerging markets continues

One of the most obvious changes noted over the past decade is the growth in the importance of emerging markets. During 2010, China superseded Japan as the world's second largest economy. According to the Chinese Bureau of Statistics, NBS, the Chinese economy posted growth of 9.2 percent in 2011.

But China is not alone in reporting sharp growth. The world's fourth largest economy, India, also continues to post robust expansion. Markets outside Asia are also noting strong growth.

Investment in these markets is important if pension capital is to be maximized. We have therefore increased investment in these markets by about SEK 16 billion during 2011.

Investment in emerging markets places special demands on us. We are aware that several countries pose problems in areas such as ethical issues. The solution is not to refrain from involvement, however, but to accept our responsibility as an established

and credible market player and to participate in the positive development of such markets.

The year of the debt crisis

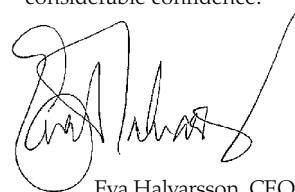
Looking back over 2011, the European debt crisis has naturally had an impact on much of the year – and on the result. While the European and North American markets have contracted, the emerging markets have continued to grow. We have also observed how the equities markets have remained volatile and lost some of their value.

In this problematic market situation, the Second AP Fund reports a return on investment of -1.9 percent, which is less than the decline noted by the major stock markets – the result of our long-term commitment to diversification of the portfolio.

During the year, the focus has continued to be on cost efficiency. Although the increasingly complex composition of the strategic portfolio incurs higher costs, it is a calculated cost which is ultimately expected to generate a higher return. Furthermore, the international CEM analyses have demonstrated that our costs are in line with the average for the world's major pension funds.

Looking ahead

During the past year, the Swedish Government has, among other things, decided to review the investment regulations applied to Sweden's National Pension Funds. We welcome this review, convinced that more relaxed investment regulations can help promote a more stable and higher return. The Second AP Fund has implemented a strategy that, at the close of this first ten years, has shown itself to be sustainable over the long term. We have a strong organization with committed and competent staff. We have proved our ability to deliver a solid return to Sweden's pensions, which we have demonstrated several times during our ten years as a buffer fund. Consequently, I look forward to 2012 and the coming years with considerable confidence.



Eva Halvarsson, CEO

Political and economic drama

After a turbulent year on financial markets in 2010, the prospects for a more normal year in 2011 seemed reasonable, partly fuelled by signs of potential economic recovery.

In macroeconomic terms, the beginning of 2011 certainly witnessed generally positive market development, with improved statistics. This positive trend was nevertheless balanced by a number of risks. One such was the risk that the European debt crisis might gain a more general foothold. Another was that the rising price of crude could lead to increased inflationary pressure and a decline in global demand.

Rising commodity prices

This latter fear was realised almost immediately, as the so-called Arab Spring – which among other factors involved demands for democratic reforms – spread to several Middle Eastern countries. The price of oil continued to rise sharply as the ruling regimes in most cases stubbornly refused to relinquish the reins of power. This led to increased uncertainty about future oil supplies. Other commodity prices, including food, also rose across a broad front. In the light of an improving economic situation and rising prices, a number of central banks raised their base lending rates during the spring, including the European Central Bank (ECB) and Sweden's Riksbank. Several of the emerging countries did the same. Due to the fact that energy and food prices constitute a considerable percentage

of the basket of goods (CPI) used to gauge inflation in emerging countries, the rate of inflation reported by these countries was particularly high.

Japanese earthquake

In March, Japan suffered a tragic and devastating natural disaster in the form of a major earthquake. Quite apart from the countless individual tragedies, this disaster also caused a dip in global industrial production, having a particular impact on the automotive and electronics industries. The impact of this disaster actually proved more far-reaching than most analysts had assumed. One consequence was that US auto manufacturers suffered quite considerably from a decline in the availability of components, which in turn led to a worsening of the US labour market.

Political drama

Other factors that kept financial markets on tenterhooks during the early part of the summer were political events, both in the USA and Europe. In the USA, a political drama surrounding a decision to lift the debt ceiling assumed centre stage. In Europe, it was figures released in May, showing that the Greek economy had worsened more than expected, increasing

focus on the sovereign debt crisis. Greece saw hopes of reducing its budget deficit recede further. This in turn increased the need for additional stringencies in terms of financial policy and reform packages. Anxiety over the situation spread to other eurozone countries with their own sovereign debt problems. Financial markets noted a dramatic decline during the summer, fuelled by sharp rises in government bond rates for the most heavily indebted countries (the graph on the next page compares these national rates for 10-year bonds with the German rate). Since the summer, many eurozone parliaments have approved legislative packages imposing more stringent financial policies.

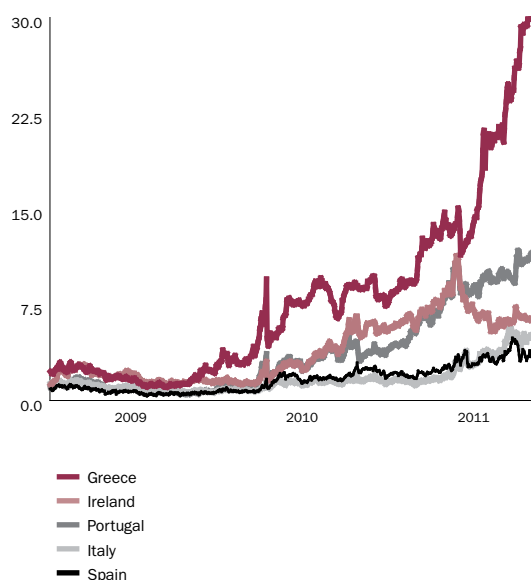
Consequences of the sovereign debt crisis

There are many different aspects to the sovereign debt crisis and its impact on the European economy, but at least three are – and have been – highlighted in particular. First are the challenges posed in terms of financial policy, second the consequences to the European economy and third, the possible effect on European collaboration and the common currency.

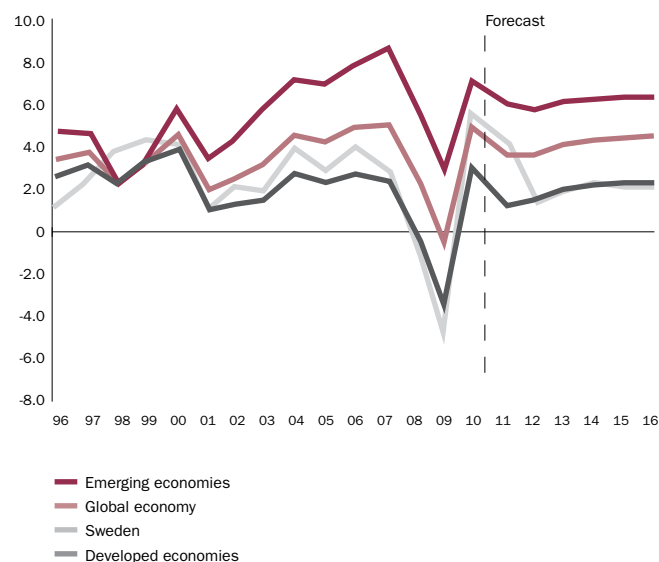
In terms of financial policy, the challenges lie both in the imposition of budgetary constraints – first and foremost through

Interest spread compared with Germany (10-year bond), %

Source: Macrobond

**GDP growth (annually adjusted), %**

Source: IMF and the Riksbank (Swedish Central Bank)



cutbacks in the public sector – and structural reforms to improve the way economies function. Other closely related challenges to be faced are the consequences of such cutbacks and their impact on growth. How severely these factors may affect European growth is difficult to predict – it all depends on the actual scope of such cutbacks. One thing is certain: the impact will be significant (for growth forecasts from the IMF and Sweden's Riksbank for the coming years, see above graph).

The central question concerning the continuing viability of eurozone collaboration has also grabbed the headlines. Previously, it seemed inconceivable that any country might consider withdrawing its participation in the common European currency. But no longer. What would happen if Greece really did pull out of the common currency? This could in turn risk leading to a

whole new range of questions as to whether other countries might go the same way. Given the fact that Sweden's economy is export-driven – and with Europe as our largest trading partner – Swedish economic health is largely dependent on European growth. The Swedish economy has proved surprisingly buoyant throughout most of 2011, but there are now clear signs of a slowdown, including a decline in the level of order bookings received by the country's export industries. Furthermore, the Riksbank revised its growth forecast downwards during the autumn and cut Sweden's base lending rate.

Still storm clouds on the horizon

Looking ahead, the storm clouds gathering over future eurozone collaboration seem quite threatening. Several countries are due to renegotiate a large part of their

sovereign debt in the first quarter of 2012. The uncertainty surrounding political developments in the USA, now entering an election year, is another factor. On the other hand, the US economy staged something of a recovery towards the end of 2011, offering hope of stronger growth at the start of 2012. In the US and many other countries, monetary policy has been relaxed through lower base lending rates and the introduction of measures designed to stimulate market liquidity. Furthermore, it seems possible that measures to stimulate the economies of a number of emerging markets will be implemented. Generally speaking, this means that growth in 2012 will still to be driven by the emerging economies, while many of the developed economies will continue the struggle to deal with their sovereign debt and budget deficit problems.

A globally respected pension system

When the reformed Swedish national pension system was introduced just over a decade ago, it heralded an entirely new structure and new responsibilities for the AP funds or fund committees, as they were then known. The First, Second, Third and Fourth AP funds, together with the Sixth AP Fund, were to act as buffer funds, thereby reducing the system's sensitivity to economic and demographic fluctuations.

In the Swedish national pension system, future pensions are determined by the level of each and everyone's individual income, based on income received over an entire working life. A key element of the new pension system is the automatic balancing mechanism, or the 'brake'. This ensures that pensions are adjusted upward more gradually at times when liabilities exceed assets. The Swedish pension system is unique and, from a financial perspective, is considered robust, since it reflects the development of the economy as a whole. If the economy goes well, with strong growth and a higher proportion of the population in work, pensions and salaries grow at the same rate. If the economy performs less well, with fewer in work, there is a risk pensions will de-

cline. So far, few countries have implemented the necessary reforms to their pension systems, although developments in several of the eurozone countries over the past year demonstrate the need for change. The problem is how such change should be implemented.

Sweden launched its reformed pension system as long as ten years ago. This makes Sweden an interesting example for many countries in Europe and other parts of the world.

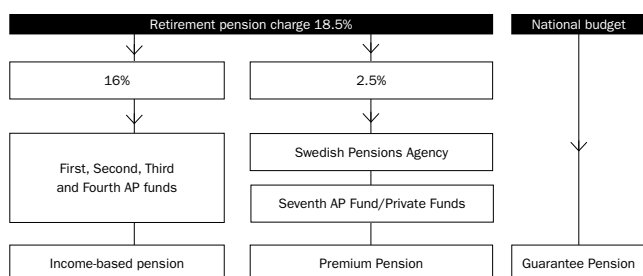
The buffer funds' mission

The AP funds are tasked with maximizing long-term return on the pension assets under management, to ensure that the

impact of automatic balancing on pensions will be as mild as possible.

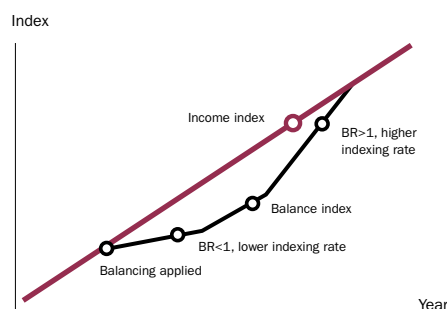
The national retirement pension comprises an income-based pension, a premium pension and/or a guarantee pension. Income-based pension contributions are transferred to the system's buffer funds: the First, Second, Third and Fourth AP funds. Each fund receives a quarter of these pension contributions and finances a quarter of pension disbursements. The Sixth AP Fund is also considered a buffer fund, but differs from the others in certain respects, different investment regulations being one. The role of the buffer funds is to even out extended periods of surplus or deficit within the system.

The Swedish pension system



The national retirement pension comprises the following: an income-based pension, a premium pension and/or a guarantee pension. The pension is financed in the form of a levy of 18.5 percent on total income earned. Of this amount, 16 percent is used to finance pension disbursements for the year (income-based pension), while 2.5 percent is invested, to generate interest in an individual premium pension account. There is also a guarantee pension, funded by the State.

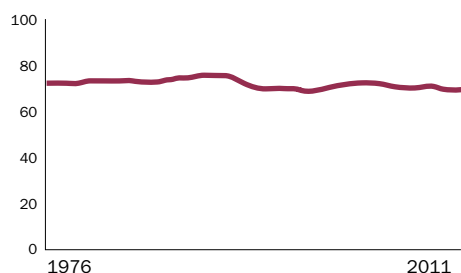
Automatic balancing mechanism



The balance ratio (BR) represents the system's assets divided by combined pension liability. If the balance ratio is less than 1, balancing is applied. This means that pension liability and pensions are adjusted upwards only by wage growth multiplied by the balance ratio. This process continues until parity is re-established.

Source: Swedish Social Insurance Administration

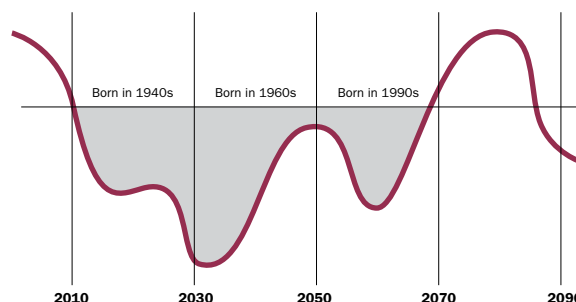
Employment trends in Sweden 1976-2011, %



A consistent and high level of employment is essential in maintaining the stability of the Swedish pension system. A lower level of employment in comparison to previous years impacts negatively on the size of pension payments. Employment growth has a more dramatic impact in terms of balancing the national pension system and size of pensions than inflation, real growth and the return on the AP funds' invested assets.

Source: Statistics Sweden

Impact of retirement peaks on pension system



When baby-boomers retire, they create a demand for a buffer in the pension system. The system's disbursements are likely to exceed contributions after 2010, when the large post-war generation of baby-boomers started to retire.

Rising disbursements

When the new pension system was introduced in 2001, it received a capital injection of SEK 536 billion, allocated equally between the four large buffer funds. Since then, growth in the Fund's capital assets has been mainly attributable to the positive impact of its portfolio management activities, although the fact that pension contributions have exceeded disbursements has also contributed. For many years to come, however, disbursements will exceed contributions, making it highly probable that the buffer funds will shrink over the next 20 years.

In all, the buffer funds account for about 10 percent of total pension assets. The other 90 percent derives from the combined value of contribution assets. These mirror the value of future pension contributions. The size of these contribution assets is determined primarily by levels of employment, salary and wage levels and retirement age.

Calculating pensions

The size of pension is determined by length of time worked and level of income. Furthermore, an upward adjustment is made to account for the mean rise in income. However, for pensions to be optimally adjusted upwards, the system must be in balance, with

pension assets equal to or in excess of pension liabilities. Contribution assets and the AP funds' combined capital assets shall at least equal accumulated pension liability.

Where liabilities are greater than assets, automatic balancing is applied. This slows the upward adjustment of pensions. This slower rate of adjustment is maintained until parity is re-established within the pension system.

Back in surplus

On a number of occasions in the past ten years, the strong performance of the AP funds' capital assets has obviated the need to activate the automatic balancing mechanism. It was not until 2008 that the brake was activated for the first time. Once applied, this impacted on pensions in 2010. The reason the brake had to be activated was the sharp decline noted by global stock markets in 2008, as well as the significant upward adjustment of pensions and pension entitlements over the preceding years. To reduce the direct impact of applying the brake, the Swedish Parliament decided that the balancing process should be extended over a period of three years instead of just one, as before.

The brake had to be reapplied in 2009,

which had an impact on pensions in 2011.

This time, however, it was the general economic trend that triggered the mechanism. Rising unemployment, leading to reduced contributions, coincided with a high level of new retirees. During 2010, the growth noted by the buffer funds capital assets helped strengthen the balance in the pension system.

Liquidity

The buffering role of the AP funds will become increasingly apparent over the next few years. Since the first net outflow in 2009, the funds paid out more than they received over the following two years. High levels of new retirees over the coming years mean that this net outflow is expected to continue for a considerable time. In practice, this means that the funds' capital assets will shrink.

To address the situation, the AP funds will have to focus still more on liquidity. As well as maximizing their return on invested assets, they must also plan for pension disbursements, as required by the system.

In 2011, the net outflow amounted to SEK 1.2 billion, as compared to SEK 4.0 billion in the preceding year.

The Second AP Fund – value generation

As a buffer fund, the Second AP Fund's long-term mission is to maximize the return on pension assets under management, thereby contributing to parity in the pension system, even when economic and demographic factors are in a state of flux.

Long-term goal

The Second AP Fund's capital assets provide a buffer for the national pension system. The Fund exists to minimise the consequences of activating the automatic balancing mechanism, by generating a solid return on pension assets under management. The AP funds' mandate includes the maximization of return while maintaining a low level of risk. The investment strategy shall make provision for the impact of pension disbursements as well as the liquidity requirement associated with outflows from the funds. In compliance with its mandate, the Second AP Fund has composed a portfolio that is expected to generate a long-term average annual real return of five percent.

Since its establishment, the Second AP Fund has generated a return on investment of 50.4 percent, corresponding to an average annual return of 3.8 percent. After adjustment for inflation, this corresponds to an annual real return of 2.4 percent.

Value-generation strategy

The Second AP Fund's strategy is based on a step-by-step approach to value generation: choice of strategic asset allocation, selection of index and active management.

This approach is based on a set of principles, or Investment Beliefs. These describe

the Fund's view of how capital markets function and the opportunities and potential they present for generating a return on investment.

Strategic asset allocation

The Second AP Fund's strategic portfolio is determined with the support of an in-house developed Asset Liability Model (ALM), which takes into account long-term developments in the pension system and on financial markets. This ensures that the mix of different asset classes that comprise the strategic portfolio represents those investments the Fund considers offer the best long-term growth prospects for future pensions, and that are also generation neutral (more on p. 14).

Benchmark index

The choice of strategic portfolio, i.e. the relative exposure to the equity and fixed-income security markets and other investment areas, primarily contributes to the Fund's value generation and capital growth. The choice of benchmark index is also important to the establishment of value-generating portfolio management.

The Second AP Fund considers the choice of index to be part of the strategic investment process, where the index determines

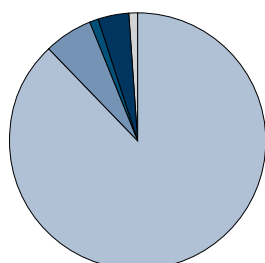
the investments selected for subsequent portfolio management, in-house and external. The Second AP Fund complements the broad and more traditional cap-weighted indices with more specialised indices. Over time, a traditional cap-weighted portfolio tends to award a higher weighting to the individual securities with the highest valuation, and a lower weighting to those with the lowest valuation. In the long term, this leads to a lower return (more on p. 17).

Active management

Finally, active management also contributes to value generation. The nature of this active management is determined by the Fund's choice of index. Internal and external management shall outperform the indices selected by the Second AP Fund (more on p. 18).

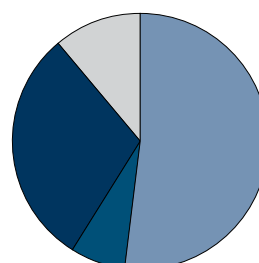
Whether working with the strategic portfolio or active management, both are equally dependent on efficient processes. The Fund's strategy combines cost efficiency with operational efficiency. These processes are in turn based on the Fund's pronounced result-oriented culture and ability to attract and develop its staff.

Swedish national pension system's asset allocation
(% of the Fund's share of pension system assets)



Contribution assets, 88%
 Equities, 6%
 Credit bonds, 1%
 Government bonds, 4%
 Alternative investments, 1%

Second AP Fund's asset allocation in the strategic portfolio
(% of Fund's capital assets)

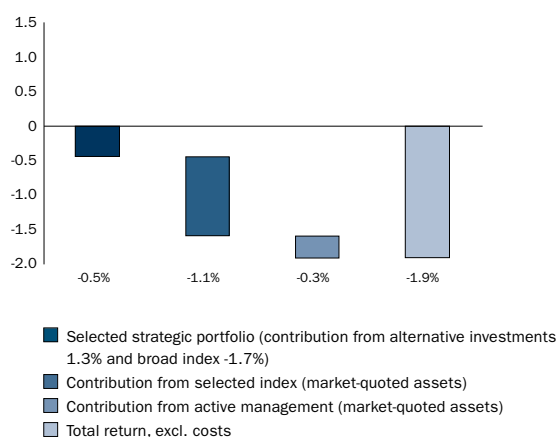


Equities, 52%
 Credit bonds, 7%
 Government bonds, 30%
 Alternative investments, 11%

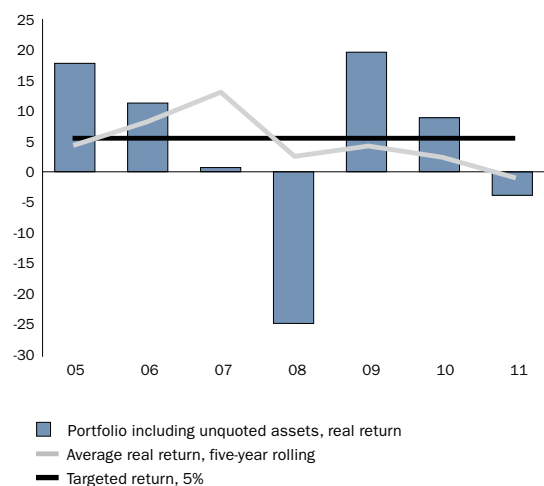
The chart at right shows the allocation of assets in the Second AP Fund's strategic portfolio. The chart at left shows the allocation of assets for the pension system as a whole, taking into account that the AP funds' answer for just over 10 percent of the Swedish national pension system's combined assets. In other words, about 90 percent of pension system assets are in no way exposed to the financial markets.

Source: Swedish Social Insurance Administration and in-house calculations.

Second AP Fund value generation, %



Real and targeted return, 2005-2011, %



A strategic portfolio to optimise future pensions

The strategic portfolio comprises the specific mix of asset classes the Fund deems will generate the greatest benefit with regard to the long-term growth of future pensions. The steady globalisation of the economy makes diversification increasingly important.

The Second AP Fund has invested considerable effort in formulating its management mandate as an integral part of the overall income-based pension system. To determine how the pension system is likely to develop in the long term, and how the Fund's selection of portfolio assets affects its balance, the Second AP Fund employs an Asset Liability Model (ALM). Developed in-house, this model includes assumptions about demographic and general economic development, as well as factoring in the long-term prospects concerning the financial markets. The work with the ALM model is designed to result in the creation of a portfolio that for all generations will minimize the impact of the automatic balancing mechanism on future pensions.

Over time, the Second AP Fund believes that approximately 90 percent of the return on invested assets will derive from the composition of the strategic portfolio, the remaining 10 percent coming from active management.

Element of risk

An important factor governing the composition of the strategic portfolio is the fact that the AP funds jointly account for no more than 10 percent of the national pension system's combined assets. The largest part (90 percent) derives from the contribution assets, which can best be compared to index-linked bonds. This means that the AP funds can and should accept a higher degree of risk in their portfolios.

A larger degree of controlled risk is also necessary if the AP funds are to be able to meet their targeted returns. This, for example, is why the Second AP Fund has invested in equities and credit bonds, which offer potentially higher returns although incurring a higher risk compared to securities such as government bonds.

Growing importance of diversification

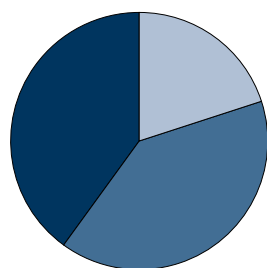
From the first relatively simple strategic portfolio with which the Second AP Fund started in 2001, things have progressed

steadily over the years. As the economy becomes more globalized, diversification – i.e. “avoiding putting all your eggs in the same basket” – gains increasing importance. This is because globalization results in a greater degree of covariance among asset classes and, sometimes, between different asset classes. This also increases the risk of broad variations in portfolio value. Over the years, the Second AP Fund's portfolio has become increasingly diversified.

During 2011, the Second AP Fund continued to diversify its portfolio. As part of this process, the Fund implemented the greatest change so far to its strategic portfolio, involving a comprehensive reallocation from Swedish equities and fixed-income securities to emerging-market equities and government bonds. The Fund is also moving increasingly from quoted assets to unquoted assets, as well as managing a growing share of the portfolio in-house. It believes this spreads risk well and leads to a potentially higher return.

The surveys of the AP funds commissioned by the Swedish Government over the years, conducted by McKinsey, show that the changes introduced by the Second AP Fund in its strategic portfolio has generated added value in excess of SEK 20 billion (July 1, 2001 – December 31, 2009).

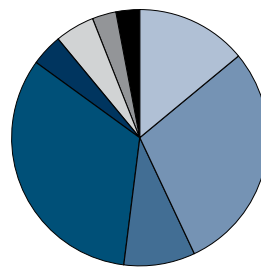
The Fund's first strategic portfolio



Swedish equities, 20%
Foreign equities, 40%
Swedish fixed-income securities 40%

The composition of the Fund's first strategic portfolio was relatively simple. The various asset classes were limited to Swedish equities, foreign equities and Swedish fixed-income securities.

Current strategic portfolio, normal weightings



Swedish equities, 14%
Foreign equities, 29%
Equities, emerging markets, 9%
Fixed-income securities, 33%
Fixed-income securities, emerging markets, 4%
Real estate, 5%
Private equity funds, 3%
Convertibles, 3%

Today's strategic portfolio features much greater spread, with more asset classes and alternative indices. This change exposes the Fund to a greater number of yield sources than previously, adding considerable value.

ALM – custom-designed for the job

The Second AP Fund's ALM model has been specially developed to enable the Fund to live up to its goal of generating a return on pension assets for Sweden's pensioners. The model takes into account a large number of macroeconomic and demographic factors, as well as assessing the prospects for the asset classes featured in the Second AP Fund's portfolio. This ALM model has played a key role in the diversification of the Fund's portfolio in recent years. During 2011, the Second AP Fund increased its exposure to emerging markets.

The Second AP Fund is tasked with managing its share of Swedish pension assets in a manner that ensures a return on investment sufficient to reduce the risk of having to apply the 'brake'. The Second AP Fund and its fellow buffer funds shall strive to ameliorate the negative impact of economic or demographic fluctuations.

Ever since its inauguration ten years ago, the Second AP Fund has considered the need to link investment strategy directly to its mandate to be of central importance. To achieve this, the Fund developed its own model at an early stage, to be able to analyse future assets and liabilities within the pension system.

Special conditions

A key factor in this strategy is the relationship between the non-funded portion (contribution assets) and the buffer funds, since it is the growth (or decline) in contribution assets that determines the demand placed on the return generated by the buffer funds.

"Consequently, when we developed our ALM (Asset Liability Modelling) model, one of the basic requirements was that it should address both pension system development as a whole, as well as the return on buffer fund investment. The model employs a 30 to 35-year analytical horizon," explains Tomas Morsing, head of Quantitative Strategies, Second AP Fund.



Three elements

The ALM model comprises three interlinked elements.

SCENARIO SIMULATION:

This element simulates possible development trajectories for the asset classes in the Fund portfolio, Swedish inflation, the capacity utilization rate and wages/salaries. In the simplest terms, one part of the model anticipates the possible development of these variables, while another describes potential variations.

CALCULATING THE PENSION SYSTEM'S BALANCE SHEET AND INCOME STATEMENT:

This element calculates the key ratios that determine pension system growth. Alternative demographic scenarios are also considered.

OPTIMIZATION ELEMENT:

This element defines the portfolio that is most appropriate to the demands of the overall goal. This is determined with the support of the other ALM model elements.

The most important key ratio of the ALM model is the balance sheet ratio (the ratio between pension assets and liabilities). The balance sheet ratio affects the rate at which pensions are adjusted upwards. If the balance sheet ratio falls below one (i.e. when pension system liabilities exceed assets), the brake is activated, and pensions are written up at a lower rate than would otherwise be the case.

"The ALM model is designed to help in the selection of a long-term investment strategy, geared towards minimizing any negative effects on future pensions. Ideally, this strategy will preclude any need to activate the brake," explains Tomas Franzén, Chief Investment Strategist, Second AP Fund.

Advanced simulations

The ALM model is used to test various assumptions that embrace a very large number of macroeconomic factors, over both the short and long term. The model deals with uncertainties and risks associated with short-term variations in these assumptions. These simulations make it possible to calculate how such variations might affect the balance sheet ratio.

Since most of national pension system assets (90 percent) derive from contribution assets, which are by nature similar to a very low-risk bond, the buffer funds are tasked with accepting a greater risk than if they had constituted the entire pension system. This influences the composition of the Second AP Fund's strategic portfolio. As a consequence, the buffer fund portfolios feature a relatively large share of equities.

An increasingly diversified portfolio

The ALM model has been instrumental in the gradual transformation of the strategic portfolio that the Second AP Fund has implemented in recent years.

In conjunction with the financial crisis, the Second AP Fund invested in the credit market, mainly in convertibles, which had been fallen in value to extremely attractive levels. During 2009 and 2010, the Fund invested in forest and agricultural real estate, which at the time represented an entirely new asset class for the Second AP Fund.

"The underlying focus has been to reduce dependence on traditional equity market exposure on mature markets," explains Tomas Franzén.

Growing importance of emerging markets

During 2011, the Second AP Fund increased its exposure to emerging markets. This derived from a determination to continue to diversify the portfolio and a wish that its composition should better reflect the actual relationships that define today's global economy.

"China's growing importance is already common knowledge to most of us, but several other countries are also posting strong growth. For example, as recently as year-end 2011, we learned that India had surpassed Great Britain to become the world's fifth larg-

bonds in emerging markets was raised from 1 to 4 percentage units. This increased overall exposure to emerging markets from 6 to 13 percent. Most of this increase was balanced by a decrease of the allocation to the Swedish market.

In the case of a large national player like the Second AP Fund, a change of this magnitude must be well planned, both in terms of the assets sold and those acquired. On the sell side, information about such a significant change could affect the market price, which would in turn mean a poorer return on

Market prospects

As a long-term investor, the Second AP Fund is able to accept a higher level of short-term risk in the form of somewhat greater volatility. At the same time, this anticipated volatility is one of the risk factors that explains why these asset classes are still considered to be attractively priced – an important requirement for generating a higher future return.

Initially, most of the Second AP Fund's investments in emerging markets were made in Asia. This is because the market



"The underlying focus has been to reduce dependence on traditional equity market exposure in mature markets."

est economy," notes Tomas Franzén. Even though the increasing significance of these emerging markets has yet to be fully reflected in a commensurate share of the equities market, their importance is on the rise there as well. The Second AP Fund had therefore decided to allocate a larger share of emerging country equities than suggested by what was reflected by broad stock market indices.

Adjusting the portfolio

In 2011, the Second AP Fund increased its exposure to emerging markets. This adjustment applied both to equities and bonds. The share of equities in emerging markets was increased from 5 to 9 percent of the strategic portfolio, while the share of government

pension capital. But the actual investment decisions are also preceded by thorough analyses and careful deliberation.

"Of course, the basic criterion when making an investment decision is the conviction that the particular asset class can generate a better return than the equivalent alternative – and that the level of risk is acceptable. In this context, for example, the historical data supports the idea that emerging markets generate a higher return than equivalent assets classes on mature markets, although the fluctuations over the longer term tend to be greater," says Tomas Franzén.

"Looking ahead, however, we don't expect these emerging markets to outperform in the way they have over the past ten years," he adds.

structure there is more attractive to an institutional and international investor.

"Asian stock markets reveal much greater diversity than other markets, such as those in South America and Russia. The South American markets are totally dominated by Brazil, where Petrobras accounts for no less than two thirds of the market value of the country's own bourse. In Russia, Gazprom predominates," explains Tomas Franzén.

The diversity of Asian markets applies both to the number of countries and the way the equity markets look in each each country.

Furthermore, China's domestic equities market, which so far remains closed to international investors, offers considerable potential.

The index affects the return

The choice of benchmark index is integral to the management process. The index determines the investment choice within an asset class, thereby affecting the return the Second AP Fund is able to generate over the long term.

In recent years, the Second AP Fund has chosen to use a variety of specialised indices that differ from the broad and more traditional cap-weighted indices. This is because

a cap-weighted portfolio tends to award a higher weighting to those individual securities with the highest valuation, which can sometimes be the same as overvaluation, and vice versa.

For this reason, the Second AP Fund therefore bases the composition of its portfolio partly on other methods. Examples of such alternative weighting methods include the equal weighting of Swedish companies in various size categories, GDP weighting of markets in the global equities portfolio and weighting based on fundamental corporate factors (such as sales, dividend and profits) in the global equities portfolio.

Weighting the portfolios based on more than just the volume of capital breaks the link between the price of an asset and its allocated weight in the portfolio. This serves to reduce the narrow concentration these portfolios exhibit in certain asset classes and markets, which is expected to lead to better diversification and a higher return in the long term.

The indices chosen form part of the strategic portfolio. The table below lists the benchmark indices for the 2011 strategic portfolio. During the year, the Fund replaced its exposure of global equities in FTSE RAFI with a value index from MSCI.

Benchmark index for strategic portfolio 2011		Index
Equities	Sweden	SBX: 'Stockholm Stock Exchange Benchmark Index' SEW: 'Unweighted Sweden Index' CSRX: 'Carnegie Small Cap Return Index'
	Foreign equities*	MSCI GDP, MSCI World, MSCI World Value Weighted
	Emerging markets	MSCI Emerging Markets
Fixed-income securities	Swedish nominal fixed-income*	SHB Swedish All Bond
	Index-linked bonds	SHB Index Linked
	Global government bonds	Barclays GA Govt 1000, excluding Japan
	Global credit bonds	Barclays GA Cred 1000, excluding Japan
	Government bonds in emerging markets	JP Morgan EMBIGD, JP Morgan GBI-EM Global Div*
Alternative investments	Real Estate	SFIX Svenskt Fastighetsindex
	Private Equity	MSCI, World Local currency + 3 percent
	Convertibles	7 percent per annum

*Adjusted index.



Active portfolio management – where the chance of success is greatest

Active asset management is based on the assumption that the market is not fully efficient, with assets that temporarily are incorrectly valued. By identifying these market inefficiencies and exploiting the Fund's staying power, an active portfolio manager can increase return compared with exclusively index-governed management. For this reason, the Second AP Fund's portfolio management features active elements.

The Second AP Fund's conducts active asset management both in-house and via external fund managers.

In-house asset management

The Second AP Fund manages some asset classes in-house, focusing resources on sectors which it deems offer the greatest

potential for success based on market conditions, experience, competence and processes. The Fund manages 71 percent in-house. The following asset classes are managed in-house:

- Swedish equities
- Foreign equities on developed markets
- Swedish bonds
- Foreign government bonds on developed markets
- Tactical allocation
- Real estate (via directly-owned companies).

The active management of Swedish equities is conducted within the framework of two mandates. The larger mandate is focused on a broad equity index and the smaller on the small-cap sector. Swedish and foreign equities, as well as Swedish fixed-income securities, are managed using quantitative strategies, which involve the use of mathematical models to identify market inefficiencies.

External management

Most Fund assets under external mandates are managed actively and expected to generate an active return and contribute to diversification of the portfolio. The Fund

employs external fund managers for asset classes and markets that offer the potential for solid returns, but where the Fund lacks the requisite in-house resources.

In 2011, the Second AP Fund employed external managers within the following sectors:

- Global equities
- Swedish small-cap
- Government bond funds on emerging markets
- Global credit mandates
- Global TAA mandates
- Foreign equities on emerging markets
- Alternative investments (private equity funds, forest and agricultural real-estate funds and convertibles).

The selection and procurement process for external fund managers is based on criteria such as investment style, quality and analytical methods, organization, staffing and historical return on assets under management.

Following the change in strategy and reorganization of portfolio management activities in 2009, the Fund's total active management contributed SEK 1.9 billion, before expenses.



“Once I’d hung my captain’s hat on the peg for the last time, I found more time for my other passion in life.”

Tadeusz, 83 years old

Result and performance 2011

As of December 31 2011, Fund capital totalled SEK 216.6 billion. Falls on global stock markets were partially compensated by the positive performance of the Fund's portfolio of fixed-income securities and alternative investments.

The net reported result for the year was SEK -4.6 billion. Fund capital was negatively affected by net outflows from the pension system.

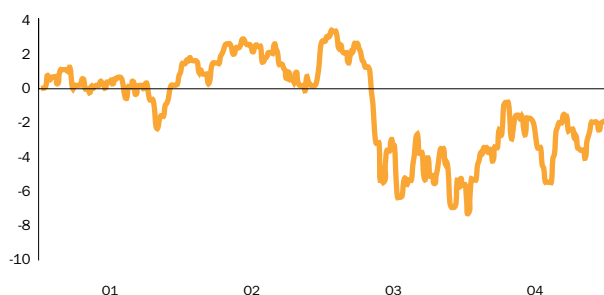
Fund capital is affected by two factors, the net result for the year and net flows within the pension system. In 2011, Fund capital noted a net decline of SEK

-5 885 million, deriving from the negative result of SEK -4 645 million, as well as the negative net outflows from the pension system charged against it, amounting to SEK -1 240 million.

Capital flows consisted partly of contribution payments to the system and pension disbursements from it, amount-

ing to a net of SEK -1 027 million, and partly of the cost of administering the national pension system, which was charged against Fund capital in an amount of SEK -213 million. For the third year in succession since the pension system was launched, the net of inflows and outflows was negative.

Second AP Fund's absolute return in 2011, %



The total portfolio noted a return of -1.9 percent in 2011, excluding expenses.

Fund capital performance 2011, SEK million

Fund capital brought forward	222 507
Pension contributions received	53 895
Pension disbursements	-54 922
Administration contribution	-213
Net result for the period	-4 645
Fund capital carried forward	216 622

Fund capital noted a net decline of SEK -5.9 billion in 2011.

Composition of strategic portfolio, exposure and return as per December 31 2011

Asset class	Strategic portfolio, %	Exposure, %	Exposed value, billion	Absolute return, %	Relative return, %	Active risk ex post*, %
Swedish equities	14.0	14.2	30.8	-13.3	-0.5	0.7
Foreign equities	38.0	37.5	81.2	-8.2	-0.1	0.5
Fixed-income securities, including liquidity and accrued interest	37.0	35.9	77.7	6.8	-0.6	0.4
Total quoted assets, excluding alternative investments and costs				-3.2	-0.3	0.3
Alternative investments	11.0	12.4	26.9	8.4		
Total Fund capital, excluding commission fees and operating expenses	100.0	100.0	216.6	-1.9		

* Historical outcome, 12 months rolling.

Net result for the year

The net result of SEK -4.6 billion reflects not only the impact of falling prices on global stock markets. It also reflects the positive contribution made by fixed-income securities as well as by the Fund's placements in alternative investments.

Operating income

Operating income comprises direct return as well as net return per asset class, foreign exchange gains/losses and net commission fees.

Direct return, in the form of net interest income and dividends received, totalled SEK 9 545 (5 408) million for the year.

The net result for quoted equities comprises both unrealized and realized gains/losses, and totalled SEK -15 025 (15 042) million, including expenses for performance-based fees. Compared with most other stock markets around the world, the Swedish stock market had a weaker performance. The Fund's portfolio of Swedish equities generated a return of -13.3 percent compared with a return of -8.2 percent on its portfolio of foreign equities. During the second half of 2011, the Second AP Fund reduced the weighting of Swedish equities.

The net result for unquoted equities totalled SEK 1 509 (2 135) million and is largely attributable to unrealized changes in the value of real estate and private equity funds.

The net result for fixed-income assets totalled SEK 2 002 (1 262) million, with positive contributions from all categories of fixed-income assets. The highest return reported for this asset class was noted by Swedish nominal and index-linked bonds.

The Fund's trade in derivatives posted a negative net result of SEK -1 736 (1 292) million, where investment in derivatives exposed to emerging markets had the greatest impact.

Management expenses in the form of performance-based fees, totalling SEK 99 (189) million for 2011, have been charged against the net result for externally managed assets. This cost arises when an external portfolio manager generates a return over and above the agreed target, having a direct impact on the net result reported for each asset class, as per current accounting principles.

Commission fees pertaining to fixed external management fees of SEK 200 (187) million, as well as custodial expenses of SEK 10 (9) million, were charged against operating income.

Fund expenses

The Fund's total expenses include in-house expenses in the form of operating expenses, fixed external portfolio management and custodial expenses. Variable expenses related to performance-based contracts and management fees reported as part of the acquisition value are charged against the net result for each asset class, as described in Note 4 on page 44. The Fund's operating expenses and commission fees, expressed as an expense ratio, amounted to 0.17 (0.17) percent for 2011.

A global cost-efficiency comparison with other pension funds demonstrates that the Fund is highly cost efficient, which is commented on in greater detail on page 39.

Operating expenses

Operating expenses totalled SEK 159 (160) million. Reported as a ratio of average Fund

capital over the twelve months, this corresponds to a cost level (expense ratio excluding commission fees) of 0.07 (0.08) percent.

External management expenses

The degree of active risk adopted and the market selected have a major impact on the cost of managing the Fund's capital. During 2011, an active focus was adopted for the capital assets under external management and, by year-end, SEK 63 billion was being managed under external mandates, including unquoted assets. This corresponds to 29 percent of the Fund's entire capital.

The cost for the external management of market-quoted assets partly comprises a fixed element and, for certain assignments, a performance-based element. In 2011, the fixed cost amounted to SEK 195 million and the variable performance-based element to SEK 99 million. If the management fee for private equity funds is included, the combined fixed cost for external management of the Fund's assets was SEK 200 million.

Securities lending

Like other players in long-term asset management, the Second AP Fund conducts securities lending. These loans primarily involve foreign equities and are made to parties of high credit worthiness that provide collateral equivalent to approximately 105 percent of the market worth of the securities loaned. Both loans and securities management are administered by the Fund's custodial bank. Since autumn 2008, the Fund



has reduced the volume of equities loaned, to reduce the risk of incurring losses in underlying securities.

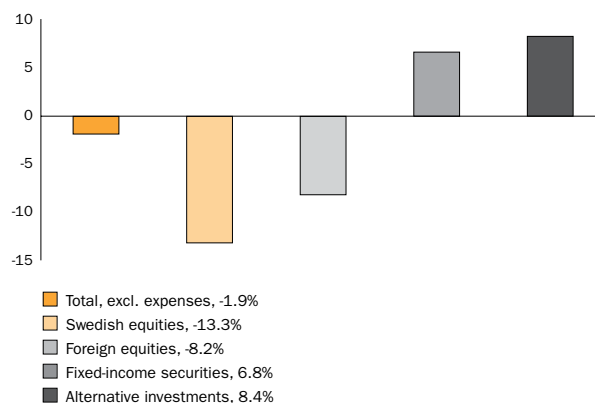
In 2011, revenues from security loans totalled SEK 26 million. This income contributed positively to the Fund's relative return and is reported as interest income in the income statement.

Brokerage commission

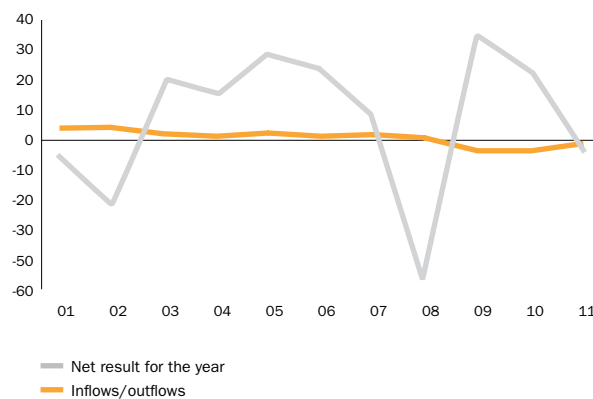
A brokerage commission is paid on the purchase and sale of equities and participations. When buying and selling other asset categories, the transaction cost is limited strictly to the difference between the buy and sell rate, known as the "spread". To establish comparability between different asset classes, commission is reported as a deductible item under Net result for quoted equities and participations (see note 2 on page 44). Commission fees paid in 2011 totalled SEK 67 million. Of these costs, 2 percent derived from commission paid to the Fund's external managers, the remainder to the Fund's in-house portfolio management organisation. Costs amounted to 0.04 percent of the total trading volume.

The following five counterparts (listed in alphabetical order) received commissions corresponding to approximately 65 percent of total commission payments: Credit Suisse, Deutsche Bank, Goldman Sachs, SEB and Svenska Handelsbanken.

Absolute return per asset class 2011, %



Fund performance and flows, 2001 - 2011, SEK billion



Since the Fund was established, the market has experienced two profound crises. First came the 'IT bubble', coinciding with the launch of the Fund, then came the financial crisis, which peaked in 2008. During 2011, the financial markets were sharply affected by debt crises in different parts of the world. These crises are mirrored by the fluctuations in the Fund's net result and capital over its first eleven years.

Portfolio return

The return on the total portfolio for 2011, excluding commission fees and operating expenses but including performance-based fees, was -1.9 percent. It is the fourth year since the Fund's inauguration that it has reported a negative total return.

The positive contributions to the return derive from asset classes fixed-income securities and alternative investments. Within asset class alternative investments, the highest return for the year derived from private equity funds, followed by real estate.

The most significant contribution to the return generated by the quoted asset classes in which the Fund invests came from fixed-income securities. In this asset class, Swed-

ish fixed-income securities in general and Swedish index-linked bonds in particular performed well in 2011. The Fund's GTAA (Global Tactical Asset Allocation) mandate also made a positive contribution over the past twelve months, of which the externally managed GTAA mandates proved most successful.

The Stockholm Stock Exchange's strong performance in 2010 was followed by a less buoyant 2011. The second half of the year was significantly worse than the first, and the Second AP Fund reduced its exposure to the Stockholm Stock Exchange by reducing the weighting of Swedish equities in the strategic portfolio.

Like its portfolio of Swedish equities, the Fund's portfolio of foreign equities also

noted a negative trend, especially with respect to equities in emerging markets.

The Fund's exchange hedging policy is intended to reduce risk in the Fund's portfolio. Exchange hedging for the year had a negative impact on the result, mainly attributable to strengthening of the US dollar (USD) and the Japanese yen (JPY) against the Swedish krona. Generally speaking, exchange fluctuations during 2011 were modest compared with the two preceding years.

Since its inauguration, the Second AP Fund has achieved a return of 50.4 percent, corresponding to an average return of 3.8 percent per year. After adjustment for inflation, this corresponds to an annual real return of 2.4 percent.

Risk adjusted return for total portfolio, measured by year

	2011		2010		2009		2008		2007	
	AP2	Strat.port.	AP2	Strat.port.	AP2	Strat.port.	AP2	Strat.port.	AP2	Strat.port.
Return, %	-1.9	-2.1	11.2	9.7	20.6	20.7	-24.0	-22.2	4.2	4.2
Standard deviation, %	10.0	9.8	8.4	8.3	12.0	12.2	19.1	19.2	8.7	8.7
Active risk ex post,* %	0.3	-	0.3	-	0.6	-	1.0	-	0.7	-
Information ratio	neg	-	2.7	-	1.3	-	neg	-	neg	-
Sharpe ratio	neg	-	1.1	-	1.9	-	neg	-	neg	-

* Total market-quoted portfolio, excl. commission fees and operating expenses.

Contribution to absolute and relative return, %

	Contribution to absolute return, %	Contribution to relative return, %
Swedish equities	-2.2	-0.1
Foreign equities	-3.4	0.1
Fixed-income securities, including liquidity and accrued interest	2.7	-0.2
GTAA	0.1	0.1
Overlay	-0.1	
FX Hedge	-0.4	
Total market-quoted assets, excluding alternative investment and implementation effects	-3.2	-0.16
Implementation effects*		-0.16
Total market-quoted assets, excluding alternative investment and incl. implementation effects	-3.2	-0.3
Alternative investments	1.3	
Total assets, excluding commission fees and operating expenses	-1.9	

* Result effects to maintain exposure to the strategic portfolio.



Portfolio of listed assets

The portfolio of market-listed assets comprises Swedish and foreign equities, Swedish and foreign fixed-income securities, tactical allocation and FX management. In 2011, the quoted portfolio posted a negative return of -3.2 percent. Total relative return was -0.3 percent, of which -0.16 percent is attributable to implementation effects.

Swedish equities

Swedish equities under management generated a return of -13.3 percent in 2011. The Fund's in-house fundamental-focused portfolio management activities were significantly affected by the falling equities markets over the summer months and, over the full twelve month period, underperformed against index by -1.4 percent. Taken as a whole, the combined result of the in-house and externally-managed small cap portfolios outperformed index by 1.1 percent. The Fund's in-house quantitative management team has previously adopted a passive approach in its management of Swedish equities. During the year, a portfolio was activated involving exposure to an equally-weighted index under index-linked

quantitative management. This outperformed index by 0.2 percent.

Foreign equities

The return on foreign equities was also negative during the year, with a return of -8.2 percent. All foreign equity portfolios underperformed against index, posting a negative return of -0.1 percent. The Fund's in-house quantitative management of foreign equities is conducted to reflect cap-weighted, fundamental-weighted and GDP-weighted indices. All these portfolios outperformed benchmark index. As a whole, the external managers for developed markets outperformed benchmark. However, the Fund's active external managers for emerging markets failed to achieve a positive return.

Swedish and foreign fixed-income securities

The Fund's total portfolio of fixed-income instruments returned 6.8 percent, with a negative relative return of -0.6 percent.

The management of Swedish fixed-income instruments generated a high return, deriving from the sharp decline in Swedish market rates during the year. As with its portfolio of Swedish equities, the Fund combines fundamental active management with a quantitative index-linked approach with respect to its portfolio of Swedish fixed-income

securities. The former achieved a return of 7.4 percent, but failed to outperform benchmark index. The latter achieved a return of 8.6 percent, posting a solid relative return. The Fund also manages a smaller portfolio of real-interest securities.

The Fund conducts in-house management of foreign government securities. The considerable market uncertainty surrounding the debt problems experienced by the eurozone made it a particularly challenging year. The 7.9 percent return generated in 2011 was marginally below benchmark index.

The management of foreign bonds on credit and emerging markets is conducted under external mandates. These achieved mixed results during the year and, overall, failed to meet the targeted return.

Tactical allocation and FX

Throughout the year, the Fund varies its market exposure in the various asset classes that comprise the strategic portfolio, to adjust it to current conditions on the financial markets. The externally managed GTAA mandates contributed SEK 112 million to the Fund's overall result. In contrast, a loss of SEK -7 million was charged against the result on in-house management of foreign exchange trading, tactical allocation and dividend forwards.

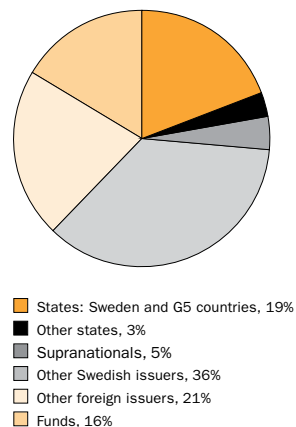
“As a pensioner, I can do exactly what I want, when I want.”

Elsbeth, 81 years old



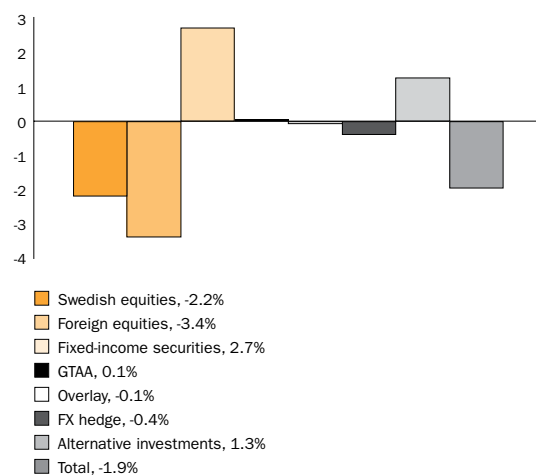
Swedish equities	2011	2010	2009	2008	2007
Exposed value, SEK billion	30.8	44.9	37.4	30.8	45.0
Absolute return, %	-13.3	27.8	52.8	-42.0	-3.1
Relative return, %	-0.5	0.8	1.4	-1.7	-0.5
SIX RX, %	-13.5	26.7	52.5	-39.1	-2.6
Share of external management, %	9	5	7	7	6
Active risk ex post, %	0.7	0.5	1.1	1.9	1.9

Distribution of Fund's fixed-income portfolio, by issuer group



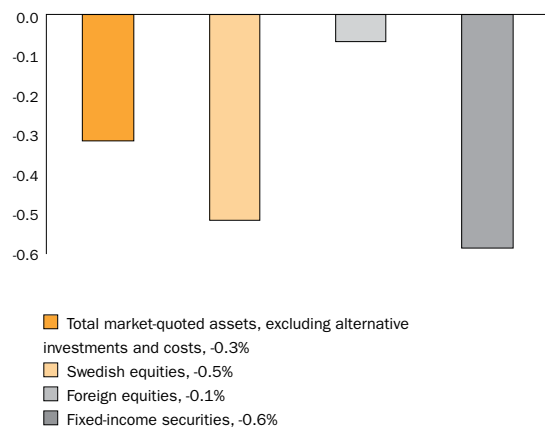
Foreign equities	2011	2010	2009	2008	2007
Exposed value, SEK billion	81.2	75.0	71.1	68.9	89.6
Absolute return, %	-8.2	5.2	25.0	-29.5	8.3
Relative return, %	-0.1	0.4	-0.2	-1.2	0.3
MSCI AC World, %	-5.0	6.6	22.3	-27.1	7.2
Share of external management, %	26	26	26	28	39
Active risk ex post, %	0.5	0.5	1.1	2.0	1.7

Attribution total portfolio, absolute return including alternative investments 2011, %



Fixed-income securities	2011	2010	2009	2008	2007
Exposed value including liquidity, SEK billion	77.7	77.2	74.5	57.3	80.6
Absolute return, %	6.8	0.5	2.5	16.6	2.5
Relative return, %	-0.6	0.5	0.7	-1.3	-0.2
Share of external management, %	31	22	24	20	15
Active risk ex post, %	0.4	0.3	0.6	0.5	0.2

Relative return per asset class 2011, %



Alternative investments 2011

The Second AP Fund has gathered investments in unquoted real-estate equities (including forest and agricultural real estate), private equity funds and convertibles featuring targeted absolute returns under asset class Alternative Investments.

These assets jointly account for 12.4 percent of total Fund assets under management. Real estate represents the largest share, accounting for 6 percent of total Fund assets. Convertibles and private equity funds account for approximately 4 and 2 percent respectively, while investments in forest and agricultural real estate account for 0.5 percent. The overall return on alternative investments was 8.4 percent for the year.

Private equity funds

The recovery experienced by the corporate-acquisitions and divestments market in 2010 continued during most of 2011, although there was a clear slowdown during the fourth quarter. Increased activity in the sphere of corporate acquisitions and divestments was clearly reflected in the operations of the private equity funds, apparent in both the domestic and global markets.

Consequently, the Second AP Fund's portfolio noted considerable activity, irrespective of the funds' strategies or geographic focus. As well as a large number of acquisitions, the funds also carried out a significant number of divestments and IPOs, including Kinder Morgan (IPO by Carlyle Riverstone), Nycomed (Nordic Capital sold the company to Japan's Takida), Kior (IPO by Koshla Ventures) and Groupon (IPO by TCV).

Profit growth in the funds' portfolio companies has been good. The worsened market conditions in autumn 2011 had a negative impact on the funds' individual portfolio companies, although the overall growth trend is good. If market conditions

get worse, the companies are well prepared to deal with declining volumes.

The tightening of global credit, witnessed mainly during the latter part of 2011 – and which is expected to continue – has led the Fund to increase its focus on funds with strategies that are viable in a weak market, where access to corporate funding is limited.

The Second AP Fund's general assessment is that the developed economies will grow much more rapidly than those in North America and Europe. During 2010/2011, the Fund initiated an increased long-term focus on emerging markets.

The Second AP Fund made seven new investments in 2011, involving commitments of approximately SEK 1.6 billion. These new investments, which provide an excellent complement to the Fund's current commitments, were made in funds managed by Khosla Ventures, Chequers, Quadriga, CITIC, Gavea, TPG and Searchlight. A number of other attractive investment opportunities in funds with both the experience and characteristics sought by the Second AP Fund had to be rejected, in light of the statutory five-percent limit imposed concerning the Fund's total capital exposure to private equity funds.

As of December 31 2011, the Fund's total investment commitment was SEK 18.1 billion. Of this, SEK 10.9 billion (including management fees) has already been invested, of which SEK 1.9 billion in 2011. Although the portfolio is still at a relatively early stage of its development, a growing number of its private equity investments may be considered mature. So far, the Fund has repaid SEK 4.3 billion since its start. The return on investment in private equity funds was 13.2 percent at year-end 2011, the market worth of the portfolio amounting to SEK 8.5 billion, excluding FX hedge. Fees paid for the management of unquoted assets, where reimbursement is permitted prior to profit sharing and is deemed likely, are reported as part of the acquisition value of such assets. See also the Fund's accounting and valuation principles (page 42).

Convertibles

Since 2009, the Second AP Fund has allocated some three percent of its assets to a global portfolio of convertibles. This exposure to convertibles improves the spread of the Fund's overall portfolio and is an investment that generates an absolute return. This asset class is affected by the performance of both equities and credits, but provides good protection when share prices are falling. The Fund's holdings, which feature a generally low-risk profile, are managed actively under four external mandates, operating with different management styles.

During 2011, many global stock markets seriously underperformed (many noting declines in market worth of -10 to -25 percent). The defensive nature of portfolio and asset class helped limit the decline in return on investment to -3.3 percent. Since it was established in 2009, the portfolio has generated a total return of 17.1 percent.

Real estate

The Fund's unquoted real-estate holdings consist of a 25-percent interest in Vasakronan Holding AB and a 50-percent interest in NS Holding AB (Norrporten). In 2011, Cityhold Property AB, a real-estate company, was established in association with the First AP Fund, focused primarily on investment in office properties located in major European cities.

The Second AP Fund's investments in real estate generate a solid long-term direct return on investment and contribute to a satisfactory spread of risk in the total portfolio.

Vasakronan, which is owned jointly by the First, Second, Third and Fourth AP funds, has a concentrated and attractively located portfolio of real-estate holdings in the Stockholm, Gothenburg, Öresund and Uppsala areas. The company owns and manages more than 216 properties, totalling some 2.8 million square metres of floor space.

The Fund's holding in Vasakronan noted a gain in market value of SEK 676 million, as well as interest income on promissory



Review	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Fund capital, flows and result, SEK million										
Fund capital Net inflows from National	216 622	222 507	204 290	173 338	227 512	216 775	190 593	158 120	140 350	117 090
The Swedish Pensions Agency and Special Management Fund	-1 240	-4 041	-3 906	884	2 019	1 676	2 905	1 651	2 567	5 002
Net result for the year	-4 645	22 258	34 858	-55 058	8 718	24 506	29 568	16 119	20 693	-21 405
Return, %										
Return on total portfolio before commission fees and operating expenses	-1.9	11.2	20.6	-24.0	4.2	13.0	18.7	11.6	17.8	-15.3
Return on total portfolio after commission fees and operating expenses	-2.1	11.0	20.3	-24.1	4.0	12.8	18.5	11.4	17.7	-15.4
Relative return on quoted assets before commission fees and operating expenses	-0.3	0.8	0.7	-1.8	-0.4	0.2	0.2	-0.6	-0.5	-0.4
Risk, %										
Active risk ex post	0.3	0.3	0.6	1.0	0.7	0.7	0.5	0.5	0.6	1.0
Share of management costs as % of assets under management										
Share of management costs incl. commission fees	0.17	0.17	0.18	0.16	0.13	0.15	0.16	0.22	0.18	0.16
Share of management costs excl. commission fees	0.07	0.08	0.08	0.08	0.06	0.06	0.07	0.08	0.09	0.11
FX exposure, %	16	12	10	12	11	12	11	10	8	7
External asset management (incl. investments in private equity companies), %	29	23	24	22	24	17	28	37	45	38

note loans of SEK 318 million. As of December 31 2011, the total reported market worth of the Second AP Fund's holding in Vasakronan, including promissory note loans, amounted to SEK 7 668 million.

Norrporten is owned jointly (50/50) by the Second AP Fund and the Sixth AP Fund. The company's portfolio of real estate consists mainly of commercial properties (offices) in mid-sized Swedish cities that enjoy solid growth (Luleå, Umeå, Sundsvall, Örebro, Jönköping, Helsingborg and others). The company also has real estate in Stockholm, Copenhagen and Hamburg. In 2011, the company sold its portfolio of real estate in Linköping, enabling continued focus on the new real-estate projects in market sectors where Norrporten is currently active. Norrporten's market growth is solidly positive. The company owns and manages some 130 properties, totalling approximately 1.1 million square metres of floor space.

In 2011, Norrporten's holdings generated a SEK 41 million gain in market value and interest income on debenture loans of SEK 183 million. As of December 31 2011,

the total reported market worth of the Second AP Fund's holding in Norrporten, including debenture loans, amounted to SEK 4 859 million.

In December, Cityhold Property signed a contract to acquire its first property. The acquisition is an almost newly-built block of offices, covering an area of some 24 000 square metres near Paddington Station in London.

The Fund generated a combined return of 10.7 percent on its unquoted real-estate holdings in 2011.

Forest and agricultural real estate

In 2010, the Second AP Fund made its first investments in forest and agricultural real estate by investing in three funds – an agricultural fund in the USA, a forest fund in the USA and a forest fund in Australia/New Zealand. A significant step was taken in 2011 with the establishment of a joint venture with US pension fund TIAA-CREF, focused on investment in agricultural real estate in the USA, Australia and Brazil.

The selection of fund manager and partners derives from a thorough analysis, with

a view to securing a balanced return at limited risk.

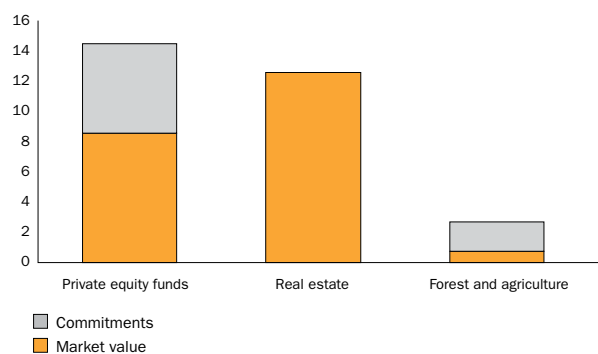
During 2011, in association with other large institutional investors, the Second AP Fund established a set of principles for responsible investment in agriculture, to promote sustainability, transparency and a responsible attitude to investment in agricultural real estate.

The Second AP Fund's investments in forest holdings in the USA are conducted via a fund managed by Molpus. As part of its commitment to the sustainable and responsible ownership of forest holdings, Molpus achieved SFI (Sustainable Forestry Initiative) certification in 2011.

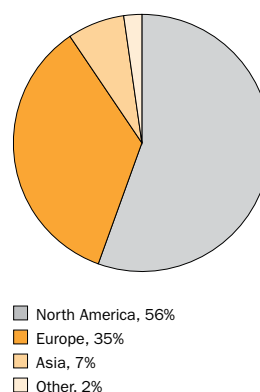
Both forest and agricultural real estate are deemed to generate a stable return, given that the underlying trend towards increased urbanization and continued economic progress will increase the demand for forest and agricultural products. Both asset classes are also considered relatively insensitive to economic fluctuations, while covariance with other asset classes, such as equities, is deemed to be low.



Alternative investments, classified according to investments completed and commitments, SEK billion

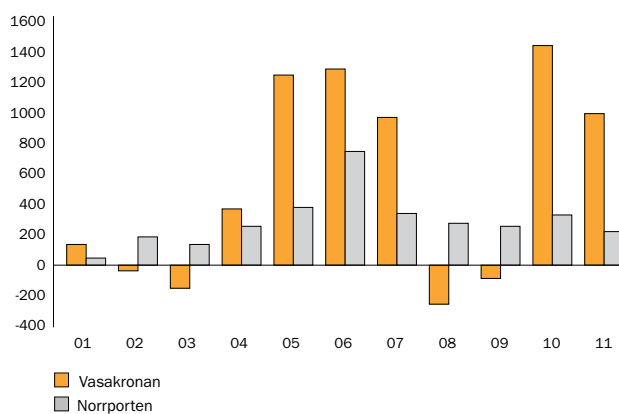


Investments in private equity funds by geographic market, %



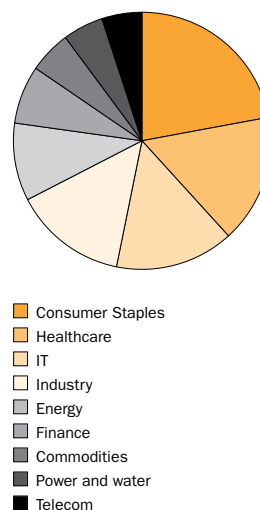
The Second AP Fund's investments in private equity funds feature a good geographic spread.

Annual result, unquoted real estate companies since start, SEK million



Average annual return since start:
Vasakronan 13.7 percent, Norrporten 13.5 percent.

Investments in private equity funds by sectors



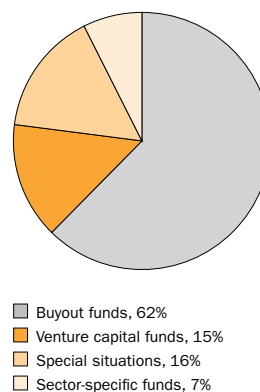
The portfolio of companies held by private equity funds is over-weighted against defensive sectors, such as healthcare.

Income and expenses for external management of unquoted assets 2011, SEK million

Gross income	1 208
Management fees paid and booked as acquisition expenses	-164*
Management fees paid and reported as commission expenses	-5
Net contribution	1 039
Assets under management, market worth, December 31 2011	9 282
Invested capital, December 31 2011	9 304
Investment commitments, December 31 2011	18 144

* Taken up as income under the net result for asset class in conjunction with valuation.

Original investment commitments in private equity funds, %



The great majority of private equity funds in which AP2 has invested, invest in mature and large companies.

Investments in forest, agricultural and commercial real estate

During 2011, the Second AP Fund continued to invest in forest and agricultural real estate. In conjunction with this strategy, the Fund established a company in association with US pension fund TIAA-CREF. The idea is to invest in agricultural real estate in the US, Australia and Brazil. In association with the First AP Fund, the Second AP Fund also formed a company focused on investment in European real estate.

As a first step, this collaboration with TIAA-CREF means that the Second AP Fund is investing USD 250 million in the joint venture. TIAA-CREF is the majority owner and administrator of the company, which will focus primarily on investment in grain production in the USA, Australia and Brazil.

TIAA-CREF is a leading US pension insurance fund, with assets under management in excess of USD 400 billion. This collaboration gives the Second AP Fund access to TIAA-CREF's well-developed platform for agricultural investment.

"They possess an extremely competent organization and share the same values with respect to issues such as sustainability. Like us, TIAA-CREF is a signatory to the UN's Principles for Responsible Investment (PRI)", states Anders Strömblad, head of Alternative Investments at the Second AP Fund.

The formation of a joint company also means that the Second AP Fund is to some extent adjusting its strategy with regard to forest and agricultural real estate.

"Having previously invested via funds, we have now opted for a more direct form of investment. Investing through a company provides us with greater opportunities for acting in the long term, as opposed to via funds, where investments are often more short term in nature. A longer-term perspective suits both us as an investor – and the object of our investments, forest and agricultural real estate – better," notes Anders Strömblad.

To date, the joint venture has completed eighteen investments, with more in the pipeline. So far, the focus has been on Brazil and the US.

"That these countries are net exporters of food is a key factor in choosing where our agricultural investments should be made," explains Anders Strömblad.

No new investments were made in forest during the year. This said, a number of such investments have been made by funds in which the Second AP Fund has previously invested.

Commercial real estate in Europe

In 2011, the Second AP Fund also added to its portfolio of real estate by forming a joint venture with the First AP Fund. The company, Cityhold Property AB, will invest in commercial real estate in major European cities.

"Through Vasakronan and Norrporten, we have previously invested in mainly commercial real estate in Sweden. Cityhold Property should be seen as a complement to these investments," says Anders Strömblad.

The starting point prior to the formation of the joint venture was that investments should be made on European markets offering liquidity and long-term stability, such as London, Paris or Hamburg. Initially, the possibility of investing via a real-estate fund was considered, but none seemed to fully meet the Second AP Fund's criteria.

Instead, the two AP Funds decided to establish a joint venture. Cityhold Property is headquartered in Stockholm, with a staff of five.

Apart from staff at the Stockholm office, the company has an employee each in London and Paris.

"The Second AP Fund plans eventually to invest EUR 250 million in real estate acquired by Cityhold Property. With a 50-percent debt-equity ratio and equal investment by the First AP Fund, the company's total investments could amount to about EUR 1 billion," explains Anders Strömblad.

Diversification of the portfolio

The thinking behind the decision to invest both in forest and agricultural real estate, as in the case of Cityhold Property, is a wish to diversify the strategic portfolio. As a first step, the initial goal is to invest one percent of Fund capital in each of the investment classes forest and agricultural real estate, with as much again in Cityhold Property. According to Anders Strömblad, however, this should not be seen as an absolute limit:

"If these investments prove successful, there is nothing to say that they should be limited to one percent. The important thing is that they should generate a return and contribute to the greater spread of risk in the strategic portfolio."



"Having previously invested via funds, we have now opted for a more direct form of investment."

Early focus on corporate governance

The AP funds' mission is to maximize long-term return on the pension assets under management, at low risk, to ensure the best possible growth in pensions. The AP funds shall pay no regard to economic-policy considerations. Attention shall be paid to environmental and ethical considerations, without compromising the overall target of a high return on investment.

From the very start in 2001, when the Second AP Fund was originally established ten years ago, it was clear that corporate governance issues would occupy a key role in its activities. It was also soon clear that, when it came to corporate governance issues, the rest of the world placed high expectations on the new AP funds. The Fund's first corporate governance policy was implemented within only a few months of its inauguration.

The active involvement and commitment of a shareholder is essential to a company's long-term development. The Fund therefore adopts an active shareholder role to ensure good corporate governance and thereby contribute to value growth.

The Second AP Fund's shareholder activities involve active participation in Swedish and foreign annual general meetings (AGMs), as well as engagement in dialogue with the boards of directors and executive managements of the Fund's portfolio companies.

The Second AP Fund's operative involvement in corporate governance issues is based on its nine principles of corporate governance. These principles comprise structural issues, as well as corporate governance, environmental and ethical issues. The corporate governance policy is reviewed and finalized on an annual basis by the Fund's board of directors and, prior to the start of each AGM season, the Fund determines which areas of corporate governance should be focused on.

In Sweden, the Second AP Fund focuses first and foremost on corporate governance issues in companies where it is among the largest shareholders and in companies where it has invested most capital. In companies outside Sweden, the Fund focuses primarily on ethical and environmental issues, via the joint Ethical Council of the AP funds. Work relating to foreign companies concerning other corporate governance issues of particular interest to the Fund is conducted in association with carefully selected partners.

The Second AP Fund strives to promote good corporate governance by collaborating with other major investors on questions of principle and through active participation in the drafting of policies, regulatory guidelines and standards.

The Fund's corporate governance tools

The Second AP Fund's engagement in corporate governance issues is founded on regulations and conventions such as the OECD's Guidelines for Multinational Enterprises and Principles of Corporate Governance, the United Nations Global Compact and Principles for Responsible Investment (PRI), the Swedish Companies Act and the Swedish Code for Corporate Governance.

Since their establishment, the Fund has supported the UN's Principles for Responsible Investment (PRI). The environment, ethics and corporate governance are considered in conjunction with every investment decision made by the Fund.

Organisation and responsibilities

The Second AP Fund's board of directors determines guidelines and policies pertaining to governance issues, entrusting day-to-day management of these issues to the Fund's CEO. The CEO is also backed by an investor group featuring members of the Fund's executive management and the head of equities. This group is responsible for the strategic and operational aspects of the Fund's corporate governance activities. The investor group targets and drafts action plans and monitors progress on an ongoing

basis. At least once a year, a report on the Fund's governance activities is submitted to the board of directors.

The environment, ethics and asset management

A positive long-term approach to the environment and ethics enhances a company's value. The companies in which the Fund invests shall operate in compliance with regulations, conventions and legislation and shall also work proactively to achieve a healthy relationship with society at large. The Second AP Fund favours companies that are members of the United Nations Global Compact and that actively implement its principles, incorporating them as a natural part of their everyday operations. Portfolio companies shall also observe the OECD's Guidelines for Multinational Enterprises and Principles of Corporate Governance.

Ethical Council

The Ethical Council is a joint council that was formed by the First, Second, Third and Fourth AP funds in 2007. The Ethical Council monitors and analyses the AP funds' portfolios of foreign equities, to prevent companies from contravening international conventions to which Sweden is a signatory.

The work of the Ethical Council is based on the principles of engagement, active ownership and change, with the aim of making a difference. The Ethical Council identifies companies that can be linked to the violation of a convention. The principles of engagement, action and change find concrete expression in dialogues and the exercise of pressure, to persuade companies to deal with documented violations of conventions and to implement systems and measures to prevent future transgressions. Dialogues are one of the Ethical Council's essential instruments in influencing companies. Even if the funds sell their holdings, this fails to eliminate the violations. As a final resort, the Ethical Council can recommend that the fund in question exclude a company from its investment universe. For more information, see www.ethicalcouncil.com

Voting at AGMs

During 2011, the Second AP Fund exercised its voting rights at the AGMs of approximately 50 publicly-listed Swedish companies and slightly more than 440 foreign companies.

Remuneration issues

The Swedish Government's employment guidelines for senior executives within the AP funds state that "in companies where the AP funds have a direct interest or indirect interest via another company, the funds and the company in question should conduct a dialogue with other shareholders to ensure that these guidelines are implemented as far as possible." Among other things, the corporate governance policy approved by the Fund stresses that responsibility for formulating the individual companies' systems of remuneration in an appropriate manner devolves upon those companies' boards of directors. The forms of remuneration subsequently proposed shall serve to promote the sustainable long-term development of the individual company. It is important to emphasise that each remuneration programme is judged on

its individual merits. During the year, the Second AP Fund engaged in a number of dialogues with company boards concerning the formulation of incentive programmes, with a view to promoting improvements. The Second AP Fund voted against proposals relating to remuneration issues at some 50 percent of the AGMs held by foreign companies at which the Fund exercised its voting rights. By implementing its corporate governance policy and actively exercising its role as shareholder in portfolio companies, the Fund is fulfilling its statutory requirement to promote a long-term return on pension assets.

Nomination committees

The Second AP Fund favours having a representative on the nomination committees of portfolio companies, as this provides a valuable opportunity to exercise investor influence. The Fund practices a policy of accepting all invitations to participate in the nomination process. Prior to the start of the 2011 AGM season, the Second AP Fund was represented on a single nomination committee, Opus Prodox, which it chaired. In the run-up to the 2012 AGM season, in ad-

dition to chairmanship of the Opus Prodox nomination committee, the Second AP Fund is also represented on Lundin Petroleum's nomination committee.

Board composition

The Second AP Fund stresses the importance of increasing the number of women on the boards of publicly quoted companies and duly observes this principle when participating in the nomination process.

The Fund also feels that nomination committees should draft a concrete plan to attain the most appropriate board composition, with respect to gender, age, background, experience and competence. During the spring, the Second AP Fund conducted its annual survey to determine the number of women on the boards and executive managements of publicly listed companies. The survey revealed that female representation on corporate boards has risen to 22.9 percent and the percentage of women in executive management positions to 15.3 percent – which are the highest levels since the study started in 2003. The Fund conducts an ongoing dialogue with its portfolio companies concerning the composition of their boards.

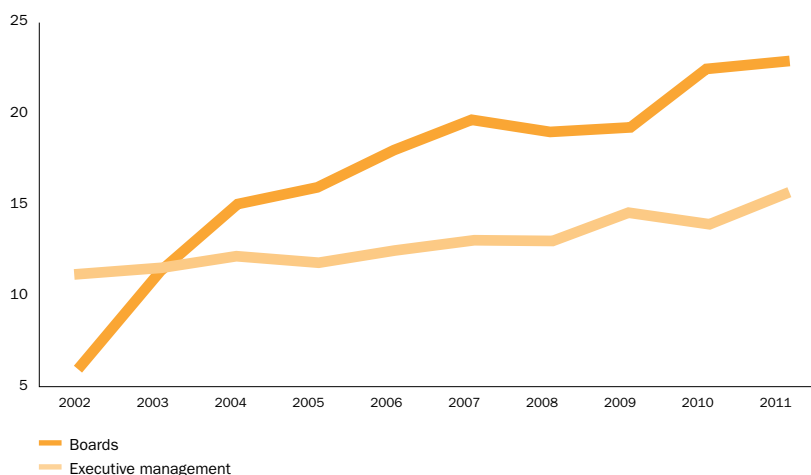
Finance & Sustainability Award

The Second AP Fund has established an award in the finance and sustainability sphere to encourage students at the University of Gothenburg's School of Business, Economics and Law to submit papers on finance and sustainability. The Award, which is worth SEK 20 000, will be presented in spring 2012 for the paper that is considered to best define how financial theory or asset management can be integrated with sustainability concerns.

Annual Corporate Governance Report

More detailed information on the Fund's corporate governance activities and its actions at AGMs will be presented in conjunction with the release of the Fund's Corporate Governance Report, which is published every autumn.

Proportion of women on executive managements and corporate boards, %



The percentage of women on the boards of publicly quoted companies is on the rise, from 22.2% in 2010 to 22.9% in 2011 – the highest level ever. The percentage of women in executive positions has risen sharply, from 13.8% to 15.3%.

Risk – a key resource

To achieve its targeted returns, the Fund must embrace financial risk in managing its portfolio. Financial risk is the single most important resource that the Fund has at its disposal. However, this adoption of risk must be formulated as effectively as possible. It is crucial that the risk is calculated in advance and that it is subject to careful control and evaluation.

The Second AP Fund's risk policy, which is determined by the board of directors, prescribes the parameters governing the Fund's exposure to risk. The CEO's document 'Guidelines for Investment' contains still more detailed instructions for the management and monitoring of financial risks. For individual mandates, parameters defining acceptable levels of exposure to risk are specified in the form of an 'Investment Guideline'.

The starting point for the Second AP Fund's risk process is the annual ALM study, which is based on a number of assumptions concerning market growth and risk levels for different asset classes.

Three collaborative risk functions

The Fund's ongoing risk management is conducted by three independent but collaborative functions.

Risk budgeting

Risk budgeting is conducted within the broader framework of asset management and involves distributing the calculation and allocation of the Fund's total active risk among different management teams, which are responsible for the 50-60 mandates handed by the Fund. Mathematical models are used to develop risk profiles as decision data for strategic allocations and support for the individual management teams.

Compliance

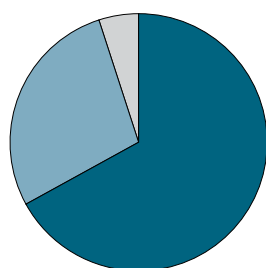
Compliance is responsible for ensuring that the legal and ethical risk aspects are managed correctly, in compliance with current rules and regulations. The job includes the establishment of guidelines describing how the various responses are to be implemented, as well as ensuring compliance with all rules and guidelines. External regulations include legislation and regulations that apply specifically to the AP funds, as well as other regulations affecting the capital market, such as those applied to flagging. In-house codes of conduct address areas such as employees' private securities transactions and ensuring that external fund managers observe the terms of their contracts.



“Freedom is the best thing about being a pensioner.”

Inga-Britt, 84 years old

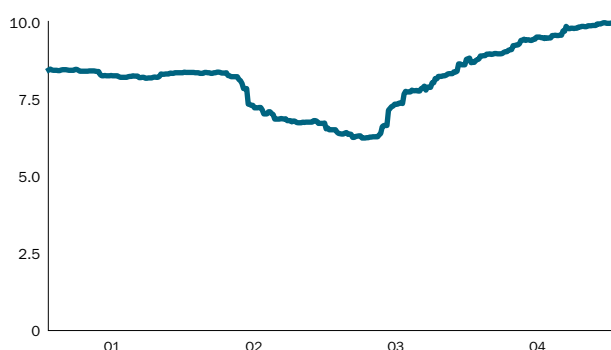
Allocation of active risk, %



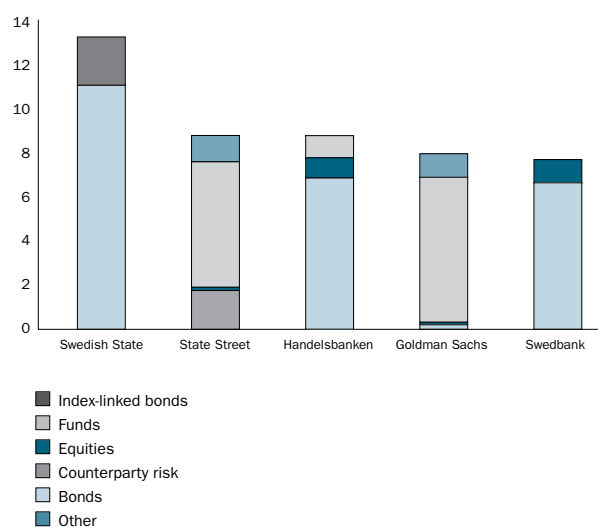
Low risk: active risk 0-1%, 67%
 Medium risk: active risk 1-3%, 28%
 High risk: active risk over 3%, 5%

Allocation of Fund's active risk, based on mandates.

Volatility, portfolio of quoted assets in 2011, %



Exposure to issuer, SEK billion



Total exposure to the five largest issuer groups.

Risk Management

Risk Management is responsible for the monitoring and analysis of the Fund's financial risks. This function is operationally separate from the asset management organization, ensuring complete independence. It is also responsible for developing guidelines and risk models, as well as providing advice and support to the Fund's executive management and portfolio management teams.

The financial risks that fall within Risk Management's remit primarily comprise market risk, credit risk, liquidity risk and operative risk.

Market risk

Market risk refers to the risk that fair value or future cash flows from a financial instrument will vary due to changes in market rates. Market risk in the day-to-day asset management process is measured in absolute terms and relative to the benchmark portfolio. The market risks most relevant to the Second AP Fund are share price risk, interest risk and exchange rate risk. The Second AP Fund analyses and monitors market risk at fund level, by asset class and per mandate. In this process, the Fund relies on a number of different tools and methods: risk attribution, stress tests and scenario analyses. It also conducts ongoing ad hoc analyses to illuminate the level of risk borne by different parts of the portfolio. Furthermore, the Fund conducts back testing of risk models, as well as the assessment and review of the limit structure.

Credit risk

Credit risk refers to the risk of loss arising from a creditor's failure to fulfil a credit commitment. In its turn, this credit risk comprises:

- Counterparty risk – the risk that a counterparty in an OTC transaction may become insolvent and unable to fulfil its commitments.
- Issuer risk – the risk that an issuer may become insolvent and unable to fulfil its commitments.

- **Liquidation risk** – the risk that the counterparty may be unable to fulfil the contract when payment is due.
- **Concentration risk** – the risk posed when large, important or substantial volumes and/or commitments are concentrated among a limited number of issuers or to a specific sector or geographical area.

Ways in which the Second AP Fund limits credit risk in the fixed-income portfolio include statutory credit checks and exposure limits. The starting point is an agreed interest-rate index for the strategic portfolio. This index is then used to define the parameters determining permitted deviations in terms of credit risk limits as per credit rating.

The Fund's counterparty risk is monitored and analysed on a daily basis. Each new counterparty is subject to a credit check, followed by subsequent continual evaluation of all current relationships. The purpose and nature of the specific business relationship is always the starting point for this process.

Issuer risk is not limited to the risk that the issuer may become insolvent. Losses may often arise long before a declaration of bankruptcy. The Second AP Fund limits issuer risk by establishing credit-risk limits, for individual issuers as well as groups of issuers. This is achieved, for example, by limiting the total credit risk posed by issuers with different credit ratings.

The liquidation risk is minimized by automatically checking the purchase and sale of equities and bonds with reference to the broker/counterparty. Special attention is paid to possible deviations, which can quickly be corrected. Payment and execution of the transaction is executed simultaneously.

The Second AP Fund manages concentration risk by analyzing relative distribution, in terms both of geographical region and industry, as well as the distribution between issuers/issuer groups. The most influential factor in managing concentration risk is the choice of benchmark index.

Liquidity risk

Liquidity risk refers to the risk that securities cannot be converted into cash at the appointed time without incurring a substantial loss or considerable cost. The AP funds must also be prepared to transfer funds to the Swedish Pensions Agency.

The Fund's liquidity risk is limited in compliance with the Swedish National Pension Funds' Act, according to which no less than 30 percent of the Fund's assets shall be placed in rights to claim at low credit and liquidity risk, and that a maximum of five percent of the Fund's total assets may be invested in private equity funds.

Operative risk

Operative risk refers to the risk of losses arising from inappropriate or unsuccessful in-house processes, human error, incorrect systems or external events. The Second AP Fund identifies operative risks using a variety of analytical methods and tools – including self-assessment, process analysis, risk indicators and workshops.

The assessment of identified operative risks is then based on determining the likelihood of their happening and the potential consequences. Based on this analysis, the risks are allocated priorities and an action plan is drafted.

New organization

At the close of 2011, the Fund reorganized its business support functions. Risk management and performance analysis broke away to form part of the new Performance and Risk Management function. The head of this new function is co-opted onto the Fund's executive management.

Portfolio risk 2011

The Second AP Fund reports a low active risk for the total portfolio for 2011. Portfolios where the Fund has chosen a higher-risk profile have in most cases generated a solid return. The level of active risk on the Fund's total portfolio of quoted assets, measured

over twelve months, has remained virtually unchanged in 2011. At year-end 2011, it was at 0.3 percent. The level of active risk noted for asset classes Swedish equities and fixed-income securities has risen from 0.5 percent to 0.7 percent and 0.3 percent to 0.4 percent respectively. The level of active risk for foreign equities remains virtually unchanged at 0.5 percent.

Covariance with respect to the relative return on asset classes in the portfolio of quoted assets has been low over the year. This indicates a well spread level of risk.

The information ratio for the total quoted portfolio declined during 2011 and was negative at year-end. This derives from a weaker relative return in 2011 and unchanged active risk.

The volatility of the quoted portfolio rose during the year from 8.4 to 10.0 percent, mainly a consequence of market volatility. The Fund's sharpe ratio declined during the year due to a weaker absolute return, and was negative at year-end. The duration calculated for the portfolio of fixed-income investments was 4.8 years as per December 31, which corresponds to an approximate increase of 0.1 year compared with the preceding year.

Fund exposure to Portugal, Ireland, Italy, Greece and Spain has been limited during the year. Its exposure as per December 31 is presented in the table.

Second AP Fund's exposure to the countries below, SEK million

Country	Instrument	
	Bonds	Equities
Portugal		196
Ireland	237	215
Italy	804	1 555
Greece		128
Spain	899	1 317
Total	1 940	3 411

FX exposure and derivative instruments

FX exposure

The Second AP Fund's exposure in foreign exchange (FX) is a risk factor that can have an impact on the worth of all asset classes traded in currencies other than the Swedish krona.

The Fund's degree of total FX exposure gradually rose during 2011, after an increased allocation to fixed-income securities and equities on emerging markets.

By year-end, 16 percent of the Fund's portfolio was exposed in foreign currency. The largest part was the Fund's exposure in USD and euros. Over the year, the Fund's currency hedging had a negative impact on the net return, primarily attributable to a

strengthening of the US dollar (USD) and Japanese yen (JPY) against the Swedish krona.

The Fund reported a negative result on FX transactions for its total portfolio (including currency hedge), amounting to a foreign-exchange loss of SEK -571 million. Combined FX losses, including interest gains/losses on FX contracts, totalled SEK 3 001 million – a result that includes the entire effect of the Fund's FX hedge.

Use of derivative instruments

Derivative instruments are the primary means of hedging the Fund's portfolios. They also contribute to more efficient asset management, create added value and reduce risk. The employment of derivative instruments is governed according to the Fund's business plan. Restrictions include the injunction that call options and forward

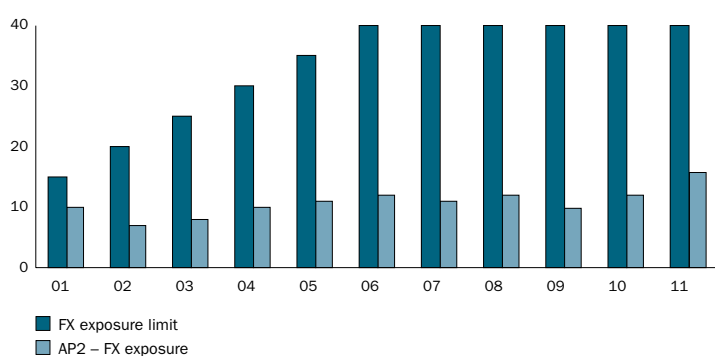
contracts may only be issued if adequate collateral is available in the form of holdings in underlying assets.

During 2010, derivative instruments have principally been utilized in the following areas:

- Foreign exchange derivatives – forward contracts and options – for managing the Fund's FX exposure.
- Equity derivatives – mainly standardized equity-index forward contracts – for efficient rebalancing of the portfolio and when adopting positions in tactical asset allocation.
- Interest derivatives – mostly standardized interest forwards and interest-rate swaps – for rebalancing, tactical asset allocation and managing the Fund's interest risk. Limited utilization of interest options to position the Fund in respect of interest risk.
- Structured derivatives – not strictly exposed to a single asset class – such as dividend forwards. These derivatives are utilized to generate relative return.
- The adopting of positions within the framework of the Fund's GTAA mandates is handled with the help of derivatives. These mandates are able to act freely with the help of short and long positions in the permitted asset classes. This said, these mandates are not permitted to adopt a net long position.

Exposure in derivative instruments is subject to ongoing monitoring and analysis. Equity and interest derivatives are traded mainly on standardized markets in cleared products, which is why counterparty risks are limited to the clearing institute. Trading in currency and credit market derivative instruments is not standardized. Consequently, both counterparty and delivery risks exist with respect to the Fund's counterparties. The CEO approves and determines limits for those counterparties the Fund utilizes for non-standardized products and the exposure is subject to ongoing monitoring. For OTC trading, the Fund requires standardized contracts, such as ISDA contracts.

Statutory exposure limit, compared with the Second AP Fund's FX exposure, 2001-2011, %



FX exposure, equivalent in SEK million

December 31 2011	USD	EUR	GBP	AUD	JPY	Övr	Total
Equities and participations	45 615	15 871	4 311	1 822	8 373	6 109	82 101
Bonds and other fixed-income securities	27 890	10 019	2 161	598	0	1 143	41 811
Other assets and liabilities, net	1 399	628	14	-19	-15	430	2 437
Derivative instruments, excl. FX derivatives	6 551	-356	20	-9	-2	12	6 216
FX derivatives	-53 230	-19 751	-5 262	-3 367	-8 987	-6 751	-97 348
FX exposure, net	28 225	6 411	1 244	-975	-631	943	35 217

FX exposure is reported as per the Fund's true management of FX risk. This means it is based on local currency at the trading location, not on the currency pertaining at the company's registered office.

Attractive employer

The Second AP Fund's ability to attract new staff, to retain them and to contribute to their development is a prerequisite for achieving the established long-term goals. The Fund strives to offer an innovative and stimulating work environment, where employees enjoy a high degree of individual responsibility and personal involvement.

The Fund's 2001 annual report contained the following words: "Prior to its establishment, the wisdom of establishing the Second AP Fund in Gothenburg became the subject of public debate. Doubts were raised as to whether localisation in Gothenburg might inhibit the Fund's ability to attract appropriately qualified personnel, with the expertise necessary to build up and operate a modern asset management organisation. These fears have proved groundless." What the Fund could already claim after a mere twelve months can now, ten years later, actually be considered a competitive advantage.

Today's Second AP Fund is an employer that has attracted some of the foremost in their respective fields and which conducts successful asset management in virtually every asset class and all parts of the world.

Ongoing competence development

The Second AP Fund strives consistently to offer its staff opportunities for personal development, to recruit the right people and develop the leadership qualities. In an organization that comprises a large number of employees with highly specific abilities, it is important to cater for individual skills requirements and development potential, while simultaneously promoting the development of teamwork. Members of staff are offered ongoing skills development within their individual fields of competence.

The Second AP Fund's corporate culture shall be defined by personal responsibility and individuality within the broader framework of a vigorous team spirit. Operations rely on teamwork, based on joint goals. This

said, there is also considerable room for individuality and personal responsibility.

Knowledge-based organization

The Second AP Fund is a knowledge-based organization, where the specialist competencies, skill and commitment of its staff are decisive to a successful result.

In Asset Management work mostly portfolio managers or analysts. The strategy adopted by the Asset Management organization is based on focus, simplicity and flexibility. 71 percent of capital assets are managed in-house, the remaining percentage being handled by external fund managers. In compliance with the AP funds' investment regulations, at least ten percent of the Fund's capital assets shall be managed externally. Assets may also be placed under external management if the Fund determines it lacks the requisite in-house resources.

At the close of 2011, the Fund reorganized its business support services into two functions: Business Support, responsible for Business Control, Financial Control and IT, Performance and Risk Management, responsible for risk management and performance analysis. The heads of these two functions are co-opted onto the Fund's executive management.

Additional functions comprise General Counsel, HR, Communications and Corporate Governance and Office Support.

Leadership strategy assessed

Good leadership is a key competitive tool in promoting the development and motivation of members of staff. The Second AP

Fund embraces a leadership strategy that defines the skills, attitudes and responsibilities that managers within the organization are expected to possess. This leadership strategy is assessed annually, involving the identification and measurement of four roles. This assessment then provides the basis for the drafting of an individual development plan for each manager.

In 2011, the Fund conducted its second staff survey. Based on the results of the survey, targets have been established for improvements both in the Fund as a whole as well as in individual departments.

Collaboration with business school

The Second AP Fund strives first and foremost to recruit from within the organization and to encourage internal mobility. In this way, specialist skills and expertise can better be utilized. For a number of years, the Fund has cooperated with the School of Business, Economics and Law at the University of Gothenburg, enabling it to offer students practical subjects for their graduate theses, opportunities of temporary employment on specific projects, trainee positions and temporary employment during summer vacations. This has served to establish a recruitment base for future employees, who in the long-term can grow into new roles. During the year, a number of additional activities were organized to further strengthen the Fund's cooperation with the School's students.

At year-end 2011, the Fund had 58 full-time employees, 41 percent of whom were women. Women accounted for 43 percent

of the Fund's executive management. Employees' average age was 42, with a median age of 41. Personnel turnover was low during the year, two leaving and six new staff being recruited.

Importance of health and exercise

Exercise and good health are a crucial aspect of the Fund's corporate culture, and all employees are therefore offered a fitness-activity subsidy and regular medical check-ups.

The Second AP Fund enables men and women to combine work with family responsibilities by offering flexible working hours and working under one's own responsibility. The Fund also encourages employees to utilize their entitlement to parental leave. In 2011, four men and five women took parental leave at different times during the year.

Remuneration issues

Competitive levels of remuneration are an important aspect of the ability to attract,

motivate and retain staff. In 2011, the Second AP Fund's incentive programme comprised all members of staff, apart from the CEO, the other members of the Fund's executive management and the head of Risk Management. This programme means that all other employees are potentially entitled to a maximum in variable remuneration equivalent to two months' salary. The programme is linked to long-term targets (it is presented on our website at www.ap2.se). No variable was paid out in 2011, due to the fact that the Fund did not report a positive result after expenses.

In-house environmental programme

The Fund works in a number of ways to highlight and minimize the environmental impact of its own activities. The introduction of an in-house environmental management system therefore seemed entirely logical. Based on the Gothenburg City environmental certification programme, the Fund gained certifica-

tion in January 2009 and has been recertified yearly since then. The system applies the same fundamental concepts as implemented by the major ISO 14001 and EMAS standards systems, but is better suited to smaller organizations.

The in-house environmental audit shows that the greatest environmental impact caused by the Second AP Fund's own business activities derives from the consumption of electrical energy (lighting, office equipment and white goods), from computer-and-screen related manufacturing and waste issues, from carbon dioxide emissions in conjunction with travel and from the consumption of natural resources in the form of paper for printouts and copying. In-house goals have been established with the introduction of an updated environmental policy. The Fund's in-house environmental programme is managed by a specially appointed environmental group, and environmental training is ongoing for all members of staff.

“As a pensioner, I have time to go dancing at last!”

Helena, 65 years old



Ten years at the same fund

2011 was the year in which the reformed Swedish national pension system and the Second AP Fund celebrated their joint tenth anniversary. Britta Ersman and Ola Eriksson are two members of staff who have been with the Fund from the start. Over the past ten years, they have made an important contribution to the Fund's development. They have also experienced the crash that followed the bursting of the IT bubble and the global financial crisis of 2008/2009.

Britta joined the Second AP Fund direct from Gothenburg University's School of Business, Economics and Law. She was initially engaged in implementing business support systems. In this role she worked with Ola, who was systems manager, and who joined the Fund from Volvo Treasury.

"It was an exciting time, fuelled by a true pioneering spirit. Few of us were full-time employees, and I remember that the first thing I asked Britta was which firm of consultants she worked for," recalls Ola.

Today, Britta is engaged in external portfolio management, responsible for the Second AP Fund's private equity portfolio. During her ten years with the Second AP Fund, she has also worked as an equity analyst. Ola has progressed via the role of head of performance measurement to his recent December 1 appointment as head of Business Control, Financial Control and IT, becoming a member of the Fund's executive management.

Britta and Ola both emphasise how much has happened in the past ten years.

"The first few years were great fun, but the job I do now is the most enjoyable I have had so far," notes Britta. "It's always been a very open and friendly place to work, offering plenty of opportunities for personal and career development. The only limits are the ones you set yourself."

Ola also notes that the Second AP Fund has experienced two dramatic periods affecting life beyond its walls in the past ten years, periods that involved events with special implications for a state-owned pension fund such as the Second AP Fund.

"During economic downturns, we find ourselves very much in the spotlight. This was especially noticeable when the IT bubble burst and during the global financial crisis of 2008/2009. We faced serious problems during both periods, and saw the market value of our investments contract most of all. But we proved that we were also able to recover and to regain our position as Sweden's largest buffer fund. Ultimately, these crises made us stronger and we had gained a reputation that was even better than what we'd enjoyed prior to it all."

The Fund's strategic portfolio has also developed in the past ten years.



"Initially, we had a fairly simple portfolio, comprised of equities and fixed-income securities. Today's portfolio is considerably more diverse, with a range of asset classes," states Britta.

Britta and Ola both stress the high competence of their colleagues at the Second AP Fund. When the Fund was originally launched, it started from zero, with no viable organization and some 500 kilometres from Stockholm. Since then, the Second AP Fund has developed steadily and has managed the largest or second largest volume of fund assets of any of the Swedish buffer funds.

"One reason for this success has been the fact that we have always operated as a single entity. It has always been clearly understood that the erection of barriers between the Fund's portfolio management and business support activities will not be tolerated. I have personally been involved in both spheres of Fund activity and can confirm that this is much more than an empty platitude and actually works in practice. Everybody works to achieve the same objective," explains Britta.

The question as to what it means to be based in Gothenburg, rather than Stockholm, seems to be a non-question for Ola and Britta.

"The main thing is that we do what we do to the best of our abilities. And that's what we have done," states Ola with conviction. "I also think it's important for Gothenburg to have an institution like the Second AP Fund here. It opens up a whole new range of opportunities, especially for students, such as those at the University's School of Business, Economics and Law. At the same time, it has

enabled us to attract well-qualified personnel back to the city, who earlier chose to work in Stockholm or elsewhere."

"The fact that we are based in Gothenburg has probably also served as an additional incentive to excel. In the early stages, people insinuated that it might never work, but we have clearly demonstrated the viability of conducting an advanced financial operation outside Stockholm. We've experienced no problems in recruiting competent staff and have never had any difficulty in getting key decision makers to attend our meetings," notes Britta.

Looking to the future, both predict continued progress towards increased diversification and a broader spread of risk in the strategic portfolio.

"It was an exciting time, fuelled by a true pioneering spirit."

"We shall invest in an even broader range of asset classes and shall adopt an even more distinctly global approach than at present," forecasts Britta.

"We shall also continue to press for improvements in areas such as sustainability, corporate governance and much more. I am convinced that Sweden's AP funds, together with the Swedish pension system, will be subject to less criticism here in the coming years – and that we shall to an increasing extent come to serve as a model for other countries to emulate," concludes Ola.

Costs linked closely to volume of and growth in managed assets

The costs incurred in managing Fund assets vary in character and are therefore also subject to a range of different factors and strategic decisions. The Fund's costs primarily comprise of costs related to the volume of assets under management, the costs of exposure as per the strategic portfolio, the costs of in-house asset management and other costs (see diagram below).

Legislation requires that at least 10 percent of the AP Funds' capital assets are managed under external mandates. As at December 31 2011, 29 percent of Second AP Fund assets were under external management,

a percentage that reflects a clearly defined management strategy. The Fund employs external fund managers for asset classes and markets that offer the prospect of solid returns or in cases where the Fund lacks the appropriate resources. In the current year, the Fund has chosen external management for the following areas: Swedish small caps, global equities and credit mandates, global TAA (Tactical Asset Allocation) mandates and equity and fixed-income mandates in emerging markets as well as alternative investments.

Decisive to cost level

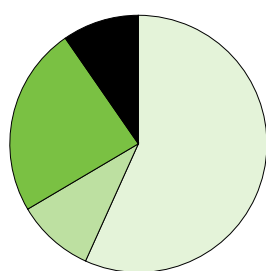
The degree of active risk selected and choice of market and asset classes are decisive in determining the level of costs incurred by the Fund. Almost 55 percent of the Fund's total costs depend on the volume of, and consequent growth of,

assets under management. These costs consist mainly of the commission fees paid to external fund managers, where the fixed fee relates directly to the size of the mandate.

Some ten percent of costs are judged to derive from activities related to exposure of the Fund's strategic portfolio in compliance with board decisions. Expenses related to indices, market information and in-house costs involved in the passive exposure and rebalancing of a strategic portfolio are deemed to fall within this category.

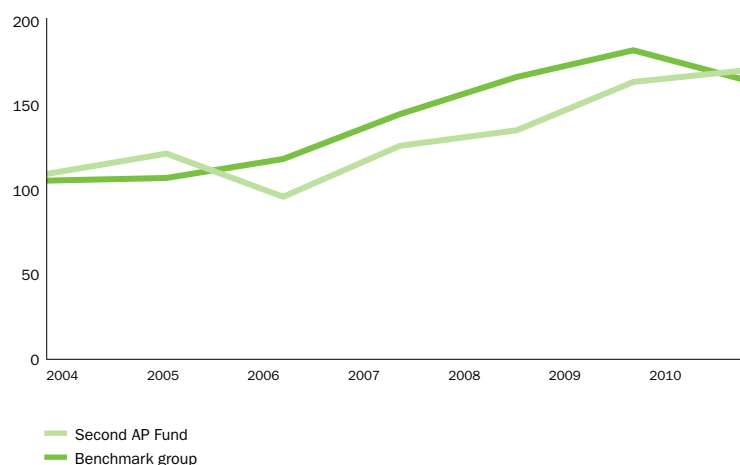
Costs associated with the in-house management of assets derive from the funding of portfolio management activities as well as business systems and other aspects of business support, accounting for less than a quarter of the Fund's total costs. Other costs relate to the Fund's

Cost distribution, Second AP Fund, %



- Costs determined by volume of assets, 55%
- Costs for exposure as per strategic portfolio, 10%
- In-house portfolio management, incl business systems, 25%
- Other central costs, 10%

Cost efficiency of the Second AP Fund, compared with international pension funds, 2004-2010, indexing



The graph illustrates the cost level for the Second AP Fund in relation to its reference group, 2004-2010.
Source: CEM

central staff functions, the CEO and board of directors, as well as overall joint costs for business premises and so on.

Cost-efficient fund management

Subsequent to the 2009 change in strategy and the restructure of the Fund's portfolio management activities, the active return on the market worth of the portfolio of quoted assets was SEK 1.9 billion, excluding operating expenses. This may be contrasted with combined costs of SEK 1.0 billion for the portfolio of quoted assets, including operating expenses and commissions.

For a number of years, the Second AP Fund has collaborated with Cost Effectiveness Measurement Inc (CEM) in analysing the Fund's portfolio management costs. The CEM analysis addresses several factors that have a decisive impact on the overall cost of managing the Fund: the volume of assets under management, the degree of active management and the relative allocations for each class of asset. The Fund's costs are compared with those of an international group of fund managers of similar size and focus.

The result of the most recent analysis, relating to 2010, confirms that the Second AP Fund continues to conduct its portfolio management activities in a successful and cost-efficient manner. Overall costs, including performance-based commissions, are in parity with the reference group.

Result of collaboration between AP funds

In creating a Swedish pension system that featured four equally large buffer funds, one of the basic intentions was to promote a better spread of risk and to stimulate beneficial competition between the funds. There was also some concern that a joint fund, by virtue of its sheer size, might have a negative impact on the way the Swedish credit market operates. This said, the four large buffer funds have collaborated closely in

areas where this has been considered beneficial to the growth of the nation's pension assets. Areas in which the AP funds collaborate include:

- Environmental and ethical issues, via the joint Ethical Council
- Tax issues, accounting and valuation issues
- Joint legal issues
- A joint voting platform for holdings in foreign equities.

The funds also benefit from the ongoing exchange of know-how and expertise between their administrative functions.

In 2010, with a view to intensifying current collaboration, the AP funds therefore decided to establish a special forum for collaboration, to reduce administrative costs within the framework of the present organizations through increased transparency and a coordination of joint interests. This collaboration is formulated so as not to restrict competition between the funds and has so far focused mainly on areas involving systems support and outsourcing. Future areas of collaboration will also include relations with custodial banks and VAT issues.

In its in-house focus on costs and efficiency, the Second AP Fund has concentrated mainly on custodial bank services and an evaluation of its portfolio management and information systems. Restructuring and renegotiation have yielded cost efficiencies and cost reductions, and the Fund has now secured a satisfactory level concerning the greater part of these costs.

How to establish reliability and confidence

All business activities involve various types of operational risk, asset management is no exception. When the Fund was first established, a number of strategic choices were made. These included the decision to maintain a high degree of control and pre-

cision in analyzing the Fund's processes, both to minimize unnecessary labour and to reduce the operational risks. The implementation of processes featuring a minimal manual element releases time and energy for what is essential – the creation of value. The Second AP Fund has developed its own toolbox to identify, assess and eliminate actual or potential operational risks. Any risks identified as a result of this process are addressed within the framework of the Fund's annual business planning process. The result of this process is then submitted in a report to the Fund's auditors and board of directors.

Implementation effects and rebalancing

The fact that the credit market is occasionally subject to a high degree of volatility places special demands on flexibility, to enable adjustments in mandate and investment focus. Fund assets shall be exposed to the markets in an efficient manner, as per the strategic portfolio, and shall be rebalanced during major fluctuations in the market. Given the fact that asset classes constantly interact in a manner that can seldom be forecast, this requires a well-developed approach and competence.

The costs and revenues attributable to the exposure and rebalancing of the strategic portfolio are referred to as 'implementation effects'. These effects can derive from forward positions, the management of foreign exchange and weight deviations between indices. One way of measuring the efficiency and flexibility of organization and its processes is to study the implementation effects with the clearly defined ambition of minimizing their negative effect on the portfolio's return.

During 2011, these implementation effects have been charged against relative return in an amount of 0.16 percent.

Income statement

Amounts in SEK million	Note	January-December 2011	January-December 2010
Operating income			
Net interest income	1	6 569	2 973
Dividends received		2 976	2 435
Net result, quoted equities and participations	2	-15 025	15 042
Net result, unquoted equities and participations	3	1 509	2 135
Net result, fixed-income securities		2 002	1 262
Net result, derivative instruments		-1 736	1 292
Net result, exchange gain/loss		-571	-2 525
Commission expenses, net	4	-210	-196
Total operating income		-4 486	22 418
Operating expenses			
Personnel expenses	5	-90	-93
Other administration expenses	6	-69	-67
Total operating expenses		-159	-160
NET RESULT FOR THE YEAR		-4 645	22 258

Balance sheet

Amounts in SEK million	Note	December 31 2011	December 31 2010
ASSETS			
Equities and participations			
Quoted	7	105 062	111 066
Unquoted	8	15 487	12 759
Bonds and other fixed-income securities	9	86 613	85 589
Derivative instruments	10	7 993	9 707
Cash and bank balances		2 295	2 599
Other assets	11	9	28
Prepaid expenses and accrued income	12	1 858	1 845
TOTAL ASSETS		219 317	223 593
FUND CAPITAL AND LIABILITIES			
Liabilities			
Derivative instruments	10	2 614	912
Other liabilities	13	16	92
Deferred income and accrued expenses	14	65	82
Total liabilities		2 695	1 086
Fund capital			
	15		
Fund capital at beginning of year		222 507	204 290
Net payments to the national pension system		-1 240	-4 041
Net profit for the year		-4 645	22 258
Total fund capital		216 622	222 507
TOTAL FUND CAPITAL AND LIABILITIES		219 317	223 593
Pledged assets, contingent liabilities and commitments			
	16		
Other assets pledged and comparable securities		1 802	1 710
Investment commitments		7 911	7 028

Accounting and valuation principles

The Second Swedish National Pension Fund, corporate identity number 857209-0606, is one of the 'buffer' funds of the Swedish National Pension System, based in Gothenburg, Sweden. The annual report for the 2011 financial year was approved by the Board of Directors on February 9 2012. The income statement and balance sheet shall be adopted by the Swedish Government.

The annual report shall be prepared in accordance with the "Act concerning National Pension Funds (2000:192)" and implemented in line with generally accepted accounting principles, on the understanding that the assets in which the Fund's capital is invested shall be booked at market value. On this basis, the First to Fourth AP funds have drafted and implemented joint accounting and valuation principles, as applied and summarized below. The accounting and valuation principles are unchanged from the preceding year.

The AP funds' accounting and valuation principles are being gradually adjusted to comply with the international IFRS accounting standard. Since the IFRS standard is currently undergoing extensive revision, this adjustment process has focused on the IFRS 7 information requirement during the year. Full compliance with the IFRS standard would not essentially affect the reported net result and capital assets. Compared with the current IFRS standard, the following significant differences have been identified.

When appraising the value of financial instruments, the AP funds base their appraisal on the market quotation per selected index (often average market rate), as opposed to the bid and offer rate.

Transaction costs, like brokerage commissions, are reported as part of the acquisition value of financial instruments, which are reported at their fair value, via the result.

No consolidated financial statements or cash flow analyses are drawn up.

Transaction-date accounting

Transactions in securities and derivative instruments on the money and bond market, equities market and currency market are reported in the balance sheet on the transaction date, which is to say the date on which the significant rights and thereby risks are transferred between parties. The claim on or debt to the other party, between transaction date and settlement day, is reported under Other assets or Other liabilities. Other transactions, especially transactions involving unquoted equities, are reported in the balance sheet as per settlement day, in line with generally accepted market practice.

Net accounting

Net accounting is applied to the Fund's liquid assets, buy-backs and derivative instruments, where there is a real right of set-off for assets and liabilities, and where the intention is simultaneous liquidation.

FX conversion

Transactions in foreign exchange are converted into Swedish kronor at the rate applied on the transaction date. On the accounting date, assets and liabilities in foreign currency are converted into Swedish kronor at closing day rates.

Changes in the value of assets and liabilities in foreign currency are separated into that part attributable to the change in value of the asset or liability, and that part attributable to the change in the exchange rate. The exchange rate differential arising due to the change in the exchange rate is reported in the income statement under Net result, exchange gain/loss.

Equities in subsidiaries/associated companies

In compliance with the Swedish National Pension Funds Act, equities in subsidiaries/associated companies are recorded at their

fair value. Fair value is determined by the same methods applied to unquoted equities and participations. There is no requirement to draw up consolidated financial statements.

Valuation of financial instruments

All Fund investments are calculated at their fair value, whereby realized and unrealized changes in value are reported in the income statement. Consequently, realized and unrealized gains/losses per asset class are included under Net result. In cases where reference below is made to the selected index supplier, refer to page 17 of the annual report for information about current indices. For a description of how fair value is determined for the Fund's numerous investments, see below.

Quoted equities and participations

In the case of equities and participations traded on a regulated market or trading platform, fair value is based on the official market rate applied at the balance-sheet date, according to the Fund's selected index supplier, often the average market rate. Holdings not included in the index are valued at the quoted rates observable in an active market. Commissions paid are taken up as income under Net result, quoted equities.

Unquoted equities and participations

As regards equities and participations not traded on a regulated market or trading platform, fair value is based on the valuation made by the counterparty or other external party. This valuation is updated once the new valuation has been received and adjusted for eventual cash flows up to the end of the accounting period. In cases where the Fund has good reason to believe that the value assigned by the fund administrator is incorrect, the received value is adjusted. This

valuation shall follow IPEV (International Private Equity and Venture Capital Valuation) Guidelines or similar valuation principles, first and foremost being based on transactions with third parties, although other valuation techniques may also be employed, such as discounted cash-flow, net-worth and multiple-valuation methods.

Bonds and other fixed-income securities

For bonds and other fixed-income assets, fair value is based on the official market rate (usually the bid rate) applied on the balance-sheet date, according to the Fund's selected index supplier. Holdings not included in the index are valued at the quoted rates observable in an active market. In cases where such instruments are not traded on an active market, and where no reliable quoted market rates are available, the instrument shall be valued with the support of generally accepted theoretical models, whereby cash flows are discounted according to an appropriate valuation scale.

Interest calculated according to the effective interest method, based on accrued acquisition value, is reported as interest income. The accrued acquisition value is the net present value of future payments, where the discount rate is the compound interest at the time of acquisition. This means that acquired premiums or discounts are accrual accounted over the security's remaining term or until the next adjustment in the interest rate – and are reported as interest income.

Derivative instruments

Where derivative instruments are concerned, fair value is based on their quoted rates at year-end. In cases where such instruments are not traded on an active market, and where no reliable quoted market rates are available, the instrument shall be valued with the support of generally accepted theo-

retical models, where input data consists exclusively of observable market data.

Derivative contracts with a positive market value on the balance sheet date are reported as investment assets, while transactions with a negative market value are reported as liabilities. The difference arising between the forward rate and the spot rate on exchange forwards is straight-line accounted over the term of the forward contract, and is reported as interest.

Buy-backs

In a true buy-back transaction, also known as a repurchase agreement, the asset sold is still reported in the balance sheet and the payment received is reported as a liability. The sold security is reported as a pledged asset among memorandum items in the balance sheet. The difference between spot payment and forward rate is accrual accounted over the term and reported as interest.

Securities lending

Securities on loan are reported in the balance sheet at their fair value, while premiums received are reported as interest income in the income statement. Collateral received for securities lent consists of securities and cash. In cases where the Second AP Fund has rights of disposal over the cash received as collateral, this is reported in the balance sheet as an asset and a corresponding liability. In other instances, collateral received is reported not in the balance sheet, but separately, under Memorandum items. The net worth of securities on loan and their collateral is also reported under this heading.

Items entered directly against Fund capital

Contributions to and disbursements from the pension system are entered directly against Fund capital.

Commission expenses

Commission expenses are reported in the income statement as a deduction under operating income. These comprise direct transaction costs such as custodial fees and fixed fees to external portfolio managers, as well as fixed fees for market-quoted funds. The performance-based fee, which is paid out if the portfolio manager attains a return on investment in excess of the agreed level, where profit-sharing is applied, is reported as a deductible item under net result per asset class in the income statement.

Commissions and fees paid for the external management of unquoted assets, where reimbursement is permitted prior to profit sharing and is deemed likely, are reported as acquisition expenses and are therefore included in the unrealized result. In other cases, they are reported as commission costs.

Operating expenses

All expenses incurred, excluding brokerage commissions, performance-based fees to external portfolio managers and commission costs, are reported under operating expenses.

Investments in equipment and in-house developed and externally purchased software are booked on current account.

Income tax

The AP Funds are exempt from all income tax on investments in Sweden.

The tax some countries levy on dividends, as well as withholding tax, is net accounted in the income statement under respective income classes.

Notes to the income statement and balance sheet

NOTE 1 Net interest income/expense

Amounts in SEK million	January-December 2011	January-December 2010
Interest income		
Bonds and other fixed-income assets	2 992	2 843
Derivative instruments	4 953	529
Other interest income	63	44
Total interest income	8 008	3 416
Interest expenses		
Derivative instruments	-1 381	-415
Other interest expenses	-58	-28
Total interest expenses	-1 439	-443
Net interest income/expense	6 569	2 973

NOTE 2 Net result, quoted equities and participations

Amounts in SEK million	January-December 2011	January-December 2010
Net result, quoted equities and participations	-14 958	15 089
less brokerage commission	-67	-47
Net result, quoted equities and participations	-15 025	15 042

NOTE 3 Net result, unquoted equities and participations

Amounts in SEK million	January-December 2011	January-December 2010
Capital gains, net	914	51
Unrealized changes in value*	595	2 084
Net result, unquoted equities and participations	1 509	2 135

* Unrealized changes in value include management fees of SEK 146 million, refunded in 2011.

NOTE 4 Commission expenses, net

Amounts in SEK million	January-December 2011	January-December 2010
External portfolio management fees, quoted assets	195	182
External portfolio management fees, unquoted assets	5	5
Other commission expenses, including custodial expenses	10	9
Total commission expenses	210	196

Commission expenses do not include performance-based expenses. During the year, performance-based expenses amounted to SEK 99 (189) million and reduce the net gain for respective asset classes. External portfolio management fees for unquoted assets are reported under commission expenses in so far as the contracts do not permit repayment prior to profit sharing in conjunction with future profitable exits.

During 2011, a total of SEK 169 (139) million has been paid in management fees for unquoted assets. Of these, SEK 164 (134) million pertains to agreements concerning repayment of management fees paid prior to profit-sharing on sale of assets. These are reported as part of the asset's acquisition value.

Distribution of Fund capital between external mandates and in-house portfolio management as per December 31 2011, SEK million

Mandate	Benchmark index	Average capital under management 2011	Market-value as per Dec. 31 2011*	% of Fund capital	External mgmt expense
External discretionary mandates					
Equity mandates					
Active management					
MFS	Global equities	MSCI World	5 483	5 570	
Fundamental index management	Sweden – Equities, model portfolio	FTSE RAFI Sweden, terminated	**	**	
Fundamental index management	Global – Equities, model portfolio	FTSE RAFI Global, terminated	**	**	
Total			5 483	5 570	3 30
Fixed income mandates					
Active management					
Rogge	Global credit mandate	Barclays Global Agg Develop credit ex Japan	4 418	3 888	
Pimco	Global credit mandate	Barclays Global Agg Develop credit ex Japan	3 835	3 647	
Standish	Global credit mandate	Barclays Global Agg Develop credit ex Japan	4 042	4 337	
Total			12 295	11 872	5 22
GTAA-mandates					
Active management					
IPM/First Quadrant					5
Total external discretionary mandates			17 778	17 442	8 57
Investments in quoted external funds					
Equity funds	as per respective fund		16 946	17 445	
Fixed-income funds	as per respective fund		17 091	17 202	
GTAA-funds	as per respective fund		2 061	2 105	
Total investments in quoted external funds			36 098	36 752	17 138
Investments in unquoted private equity funds and forest and agricultural real estate			8 259	9 282	4 5
TOTAL CAPITAL ASSETS UNDER EXTERNAL MANAGEMENT AND MANAGEMENT EXPENSES			62 135	63 476	29 200
In-house mandates					
Quoted equities and participations	SBX, SEW, CSRX, MSCI		86 866		
Fixed-income mandates, incl. convertibles in alternative investments	SHB, Barclays		53 989		
Cash and bank balances			-53		
Unquoted equities in associated companies, incl. subordinated debentures			12 344		
TOTAL CAPITAL ASSETS UNDER IN-HOUSE MANAGEMENT			153 146	71	
Other assets and liabilities			0		
TOTAL FUND CAPITAL			216 622	100	

* Market value including allocated liquidity, derivative instruments and accrued interest.

** Capital under management of in-house organization based on an externally-managed model portfolio with a fundamental index.



NOTE 5 Personnel costs

Amounts in SEK k	January-December 2011		January-December 2010	
	Men	Women	Men	Women
Average no. of employees	35	24	30	24
No. of employees, December 31*	34	24	32	22
No. of persons in Executive Management Group, December 31	4	3	3	3
* At year-end 2011, the Fund had 58 full-time employees.				
Salaries and remuneration				
Chairman of the Board		100		101
CEO		2 916		2 792
Board of Directors, excl. Chairman		427		390
Executive Management Group, excl. CEO		10 114		9 583
Other employees		36 391		35 921
Salaries and remuneration, total		49 948		48 787
Variable remuneration				
CEO		-		-
Board of Directors, excl. Chairman		-		-
Other employees		-		4 725
Variable remuneration, total		-		4 725
Remuneration to Members of the Board, in addition to directors' fees		-		-
Pension costs (incl. special employer's contribution)				
CEO		1 365		1 289
Board of Directors, excl. Chairman		4 155		3 840
Other employees		16 078		14 522
Pension cost, total		21 598		19 651
Payroll overhead				
Chairman of the Board		31		10
CEO		931		893
Board of Directors, excl. Chairman		128		124
Executive Management Group, excl. CEO		3 256		3 106
Other employees		11 438		12 833
Total payroll overhead		15 784		16 966
Other personnel costs		3 064		2 933
Total personnel costs		90 394		93 062

Board of Directors Fees paid to the Board are determined by the Swedish Government. This remuneration is paid yearly in the following amounts: to the Chairman, SEK 100 000; to the Vice Chairman, SEK 75 000 and to each of the other directors, SEK 50 000. No fees are paid for committee work carried out by board members.

CEO In the CEO's contract of employment, the Fund undertakes to pay pension benefits and health insurance up to a pensionable age of 65 years, in the form of an annual premium corresponding to 25 percent of the gross salary. Where the contract of employment is terminated by the Fund, the CEO is entitled to a severance payment equivalent to eighteen months' salary, in addition to salary paid during the six-month period of notice, less income from an eventual new appointment. The severance payment is calculated according to the cash monthly salary received at the end of the notice period. Benefits received by the CEO amount to SEK 49 k.

Executive Management Group Salaries, other remuneration and pension contributions (including special employer's contribution) for the Fund's executive management for 2011 totalled SEK 14 269 k (13 424). Salaries and other remuneration are disclosed as follows: Executive A, SEK 2 541 k (2 316); Executive B, SEK 2 036 k (1 912); Executive C, SEK 2 106 k (2 001); Executive D, SEK 1 942 k (1 889); Executive E, SEK 1 489 k (1 466). Pension contributions, including special employer's contribution, are disclosed as follows: Executive A, SEK 819 k (805); Executive B, SEK 1 083 k (1 100); Executive C, SEK 799 k (724); Executive D, SEK 655 k (676); Executive E, SEK 799 k (535). In addition to salary, other remuneration and pension contributions, the Fund's executive management has received the following benefits: Executive A, SEK 0 k (32); Executive B, SEK 73 k (70); Executive C, SEK 62 k (65); Executive D, SEK 62 k (63); Executive E, SEK 54 k (55).

Members of the Fund's executive management are not covered by the terms of the programme for performance-based variable remuneration. Senior executives come under the terms of the retirement benefit agreement between BAO (The Employers' Organization of the Swedish Banking Institutions) and JUSEK/CR/CF (SACO), The Swedish Confederation of Professional Associations. Swedish Government guidelines specify six months' notice and eighteen months' severance pay for senior executives.

Senior executives of the Second AP Fund, who were appointed before these Government guidelines came into force, are entitled to twelve months' notice without severance pay. These terms have not been renegotiated, as this would incur higher costs for the Fund.

Salary swap All employees are offered the opportunity to swap part of their salary for an additional pension benefit.

Variable remuneration The Board of Directors has approved a programme for variable remuneration in line with the Swedish Government's guidelines. In 2011, the Second AP Fund's incentive programme comprised all staff apart from the CEO, other members of the Executive Management Group and the head of Risk. This incentive programme meant that all other members of staff were entitled to a maximum of two months' salary in variable remuneration. The programme is linked partly to the result for the current financial year, partly to long term goals. This variable remuneration may only be paid out when the Fund reports a positive return. The extent of the programme is presented on the Fund's website at www.ap2.se.

Drafting and decision process The Board determines the CEO's salary and the guidelines applied in remunerating the Fund's senior executives.

Government guidelines The Board considers that the Fund is in compliance with the Government's guidelines on remuneration, apart from the above mentioned exception regarding the period of notice.

Other directorships held by Members of the Board See page 60.

NOTE 6 Other administrative expenses

Amounts in SEK million	January-December 2011	January-December 2010
Rental expenses	5	5
Information and IT expenses	41	39
Purchased services	10	9
Other expenses	13	14
Total other administrative expenses	69	67
Fees to auditors		
Audit assignments		
Ernst & Young	1.06	1.35
Accounting activities in addition to audit assignments		
Ernst & Young	0.28	0.25
Total remuneration to Ernst & Young	1.34	1.60

NOTE 7 Quoted equities and participations

Amounts in SEK million	December 31 2011 Fair value	December 31 2010 Fair value
Swedish equities	29 403	42 818
Foreign equities	56 105	53 577
Participations in Swedish funds	2 833	2 357
Participations in foreign funds*	16 721	12 314
Total quoted equities and participations	105 062	111 066
* of which participations in mixed funds	2 098	1 972

The 20 largest Swedish and foreign shareholdings, by value, are listed on pages 56-57.

A complete list of Swedish and foreign holdings may be found on the Fund's website at www.ap2.se

The five largest shareholdings on the OMX Stockholm Stock Exchange and on foreign stock markets respectively

Name	Number	Fair value	Capital, %	Voting rights, %
Hennes & Mauritz	9 052 691	2 003	0.55	0.27
Ericsson	26 683 552	1 879	0.82	0.47
Nordea Bank	27 475 072	1 463	0.68	0.68
Atlas Copco	10 224 039	1 446	0.83	0.76
Volvo	19 050 079	1 439	0.90	1.02
AstraZeneca	2 670 325	844		
ABB	6 319 150	818		
Exxon Mobil	940 000	546		
Apple	182 600	507		
Nestlé	839 479	336		



NOTE 8 Unquoted equities and participations

Amounts in SEK million, December 31 2011	Corp. reg.	No. of equities	Participation right, capital/votes %	Start year	Acquisition value
Swedish equities and participations					
Andra & Sjötte Fastigheter AB	556694-3022	5 000	100		2
Cityhold Property AB	556845-8631	250	50		13
NS Holding AB	556594-3999	1 819 884	50		811
Vasakronan Holding AB	556650-4196	1 000 000	25		1 221
EQT Northern Europe KB (EQT III)			1	2001	72
Swedestart Life Science KB			5	2001	10
Swedestart Tech KB			3	2001	8
Foreign equities and participations					
AG Real Value Fund			10	2010	290
Ares Corporate Opportunities Fund III			1	2008	178
Carlyle Asia Growth Partners IV			5	2008	138
Carlyle Europe Partners III			0.9	2006	324
Carlyle Riverstone Global Energy and Power Fund III			0.8	2005	128
Carlyle Riverstone Global Energy and Power Fund IV			0.8	2008	207
Carlyle Riverstone Renewable Energy Infrastructure Fund I			3	2005	129
Carlyle Riverstone Renewable and Alternative Energy Fund II			2	2008	193
Chequers Capital XVI			2	2011	21
CPE China Fund			2	2011	61
CVC European Equity Partners IV			0.6	2005	177
CVC European Equity Partners V			0.5	2008	255
EQT Expansion Capital I Fund			16	2003	83
Gavea Investment Fund IV			1	2011	56
Generation IM Climate Solutions Fund			5	2008	165
H.I.G. Bayside Loan Opportunity Fund II			5	2010	71
Khosla Ventures III			4	2009	165
Khosla Ventures IV			5	2011	33
Lyceum Capital Fund II			10	2008	232
Mid Europa Fund III			3	2007	317
Molpus Woodlands Fund III			11	2010	118
New Forests Australia New Zealand Forest Fund			9	2010	99
New Mountain Partners III			1	2007	203
Nordic Capital V			3	2003	370
Nordic Capital VI			3	2006	429
Nordic Capital VII			1	2008	289
Pathway Private Equity Fund IX			99	2004	737
Pathway Private Equity Fund IXB			99	2005	1 153
Pathway Private Equity Fund IXC			99	2008	456
Quadriga Capital Private Equity Fund IV			4	2011	0
R/C Pattern Energy Feeder			5	2010	96
Resolute Fund II			1	2007	195
Searchlight Capital PV			4	2011	0
Sequoia Capital 2010			2	2010	61
Sun Capital Partners V			0.4	2007	91
TCV VII			1	2007	121
Thomas H Lee Equity Fund VI			0.4	2006	162
TIAA-CREF Global Agriculture			24	2011	260
TPG Asia V			1	2007	217
TPG Credit Strategies Fund			6	2007	206
TPG Growth Fund II			3	2011	13
TPG Partners V			0.3	2006	251
TPG Partners VI			0.3	2008	196
TPG Star			4	2007	268
Total unquoted equities and participations					11 351
Total fair value					15 487

NOTE 9 Bonds and other fixed-income securities

Amounts in SEK million	December 31 2011	December 31 2010
	Fair value	Fair value
Swedish State	11 101	14 165
Swedish municipalities	257	276
Swedish mortgage institutions	22 127	24 311
Other Swedish issuers		
Financial companies	3 049	3 045
Non-finance companies	6 044	6 415
Foreign states	7 541	9 232
Other foreign issuers	34 994	26 945
Deposits	1 500	1 200
Total	86 613	85 589
Inflation-linked bonds	2 169	4 125
Other bonds	59 755	62 981
Certificates	-	499
Unquoted promissory notes	3 625	3 625
Unquoted convertible debentures	2 355	2 220
Participations in foreign index-linked funds	17 209	10 939
Deposits	1 500	1 200
Total	86 613	85 589
of which valued according to theoretical modelling	1 500	1 700

NOTE 10 Derivative instruments

Amounts in SEK million	December 31 2011		December 31 2010	
	Face value*	Fair value	Face value*	Fair value
Derivative instruments with positive fair value				
Currency options, held	352	2	1 201	4
Forward contracts	55 920	1 380	127 255	1 673
Equity futures	5	40	3	15
Index-linked options, held	-	-	18	3
Index-linked options, pledged	158	30	45	3
FFRA/index-linked futures	40 322	18	53 687	25
Interest swaps	200	1	-	-
Other instruments	6 855	6 522	6 723	7 984
Total	103 812	7 993	188 932	9 707
of which cleared	40 476		53 753	
Derivative instruments with negative fair value				
Currency options, pledged	295	0	1 093	2
Forward contracts	101 697	2 576	90 113	725
Equity futures	1	0	0	0
Index-linked options, held	62	31	9	2
Index-linked options, pledged	-	-	36	3
FRA/index-linked futures	33 212	7	51 035	43
Interest swaps	100	0	-	-
Other instruments	-	-	4	137
Total	135 367	2 614	142 290	912
of which cleared	33 275		51 075	

* Face value refers to the number of contracts multiplied by the contract amount for the derivative instruments' absolute amount. The amount thereby includes both forward contracts purchased and sold, gross. Refer to page 34 for a description of the types of derivative instrument employed and the risks that can be managed with derivatives.

Trading in options is limited. Pledged put options are partial positions in different options strategies, designed to express a market view. All derivatives with negative fair values have a maturity of less than twelve months, apart from an interest swap that matures in 2031 (fair value SEK 0.5 million). On maturity, this will be set off against underlying derivative instruments.

NOTE 11 Other assets

Amounts in SEK million	December 31 2011	December 31 2010
Incoming payments, unsettled transactions	5	24
Other receivables	4	4
Total	9	28

NOTE 12 Prepaid expenses and accrued income

Amounts in SEK million	December 31 2011	December 31 2010
Interest income accrued	1 722	1 729
Dividends accrued	71	49
Restitutions	30	42
Other prepaid expenses and accrued income	35	25
Total	1 858	1 845

NOTE 13 Other liabilities

Amounts in SEK million	December 31 2011	December 31 2010
Outgoing payments, unsettled transactions	6	83
Accounts payable	8	6
Other liabilities	2	3
Total	16	92

NOTE 14 Deferred income and accrued expenses

Amounts in SEK million	December 31 2011	December 31 2010
Accrued external management fees	41	41
Accrued interest expenses on currency forwards	5	18
Other accrued expenses	19	23
Total	65	82

NOTE 15 Fund capital

Belopp i mnkr	December 31 2011	December 31 2010
Opening Fund capital	222 507	204 290
Net inflows to the national pension system		
Pension contributions received	53 895	51 267
Pension disbursements to the Swedish Pensions Agency	-54 919	-55 050
Transfer of pension entitlements to EC	-2	-1
Adjustment of pension entitlements re. previous years	-1	0
Administration contribution to the Swedish Pensions Agency	-213	-257
Total payments to the national pension system, net	-1 240	-4 041
Net result for the year	-4 645	22 258
Closing Fund capital	216 622	222 507

NOTE 16 Pledged assets, contingent liabilities and commitments

Amounts in SEK million	December 31 2011	December 31 2010
Other pledged assets and comparable collateral		
Securities on loan for which guarantees have been secured in the form of securities and cash*	1 326	1 371
Securities pledged in connection with exchange-cleared derivatives	476	339
Total	1 802	1 710

* Guarantees secured for pledged securities: SEK 1 397 (1 444) million.

Commitments

Commitments regarding future payments, unquoted holdings	7 842	6 927
Commitments regarding future investments, quoted fixed-income holdings	69	101
Outstanding promise of guarantee for new share issue	-	-
	7 911	7 028

NOTE 17 Financial instruments, price and valuation hierarchy**Valuation of Fund capital – Market-quoted assets**

The great majority of the Fund's assets are market-quoted, which means that they are traded on an active market at rates that reflect actual and regular market transactions. The Fund's market-quoted assets are valued on a daily basis at quoted market rates and comprise equities, bonds, derivatives and foreign exchange (FX).

In the case of so-called OTC derivatives, the appraisal is based either on theoretical modelling or on a valuation by an outside party. Where the Fund's holdings in FX forward contracts and interest swaps are concerned, the appraisal is based on theoretical modelling, where at present the only subjective elements are the interest curves selected and the methods adopted in calculating and forecasting future values (interpolation and extrapolation). The same methods are applied for deposits, short-dated certificates and similar instruments.

When it comes to other OTC derivatives, the appraisal is handled exclusively by external parties, without subjective input from the Fund. At year-end 2011, the Fund's portfolios contained only a few outstanding structured OTC derivatives.

At times when the market lacks the liquidity necessary for market-quoted papers, a higher degree of subjectivity is required in the valuation process. At such times, the market exhibits sharp differences in bid and offer rates, leading even to marked differences between one market player and another. At times like these, the Second AP Fund adopts a conservative approach to appraisal.

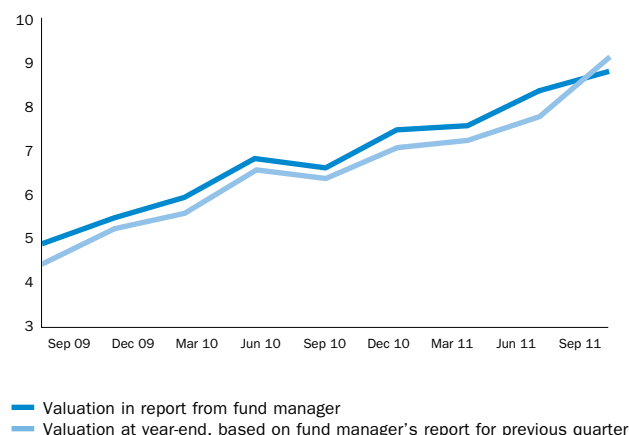
Should an asset be deregistered, the market rates quoted by alternative trading centres shall be taken into consideration. In such instances, each individual security is appraised separately.

Valuation of Fund capital – Alternative investments

For assets not valued on an active market, various appraisal techniques are applied in the calculation of fair value at the valuation date. Fair value is deemed to be the market rate at which a transaction between informed and mutually independent parties can be completed. In the case of the Second AP Fund, these non-market-quoted assets consist of unquoted real estate assets (6 percent of the total portfolio), private equity funds (4 percent of the total portfolio) and OTC derivatives.

Private equity funds are appraised in accordance with the IPEV Guidelines (International Private Equity and Venture Capital Valuation) or equivalent valuation principles, which are jointly-endorsed and established methods within the industry. Valuation of holdings is based on the most recent interim reports published by individual private equity funds. Interim reports are normally available within 90 days of the last quarterly financial statement. This means that Fund holdings valued at year-end 2011 were based mainly on an appraisal of private equity funds made on September 30 2011, adjusted for in- and outflows during the fourth quarter. This method of appraisal has been applied consistently by the Second AP Fund, right from the start.

An analysis of the relative impact of this time-lag since September 2009 reveals that the Fund's valuation, as shown in the official year-end accounts, has in all essential respects been lower than the value declared in the final report submitted by the private equity fund managers. However, the values calculated for September 30 2011 were affected by the market decline during the latter part of the summer (see graph on page 52). A third-party assessment of market growth during the fourth quarter of 2011 confirms that private equity funds in the Fund's key geographic markets enjoyed continuing robust growth during the final quarter.

Validation of valuations in Private equity, SEK billion

An analysis of the impact on the result arising from the time-lag reveals that the Second AP Fund's valuations in its official annual accounts are in all essential respects lower than the values cited in the final report submitted by managers of private equity funds. However, the values calculated for September 30 2011 were affected by the market decline during the latter part of the summer, although this is not expected to continue to have an impact by year-end 2011.

Fair-value

Fair value is defined as the amount for which an asset may be transferred or a debt settled, between informed parties who are mutually independent and who have a vested interest in completing the transaction.

For this reason, the Fund's holdings are sorted at three different levels and classified according to the in-data used for the appraisal. The Second AP Fund classifies its assets at fair value as per the hierarchy shown below.

Fair-value hierarchy, SEK million

	Level 1	Level 2	Level 3	Total fair value
Equities	100 200	9 259	54	109 513
Bonds	75 822	5 963	0	81 785
Cash/derivatives	2 758	1 172	0	3 930
Alternative investments	0	0	21 495	21 495
Total assets valued at fair value via the income statement	178 780	16 394	21 549	216 723*

* The difference compared to reported Fund capital refers to items unrelated to financial investments, such as interim items and other assets/liabilities.

Level 1: Quoted rates (unadjusted) on active markets for identical assets or liabilities.

Level 2: In-data other than the quoted rates cited in Level 1, which are observable for the asset or liability either directly (excluding rates) or indirectly (derived from rates).

Level 3: In-data for the asset or liability which is not based on observable market data (non-observable in-data).

Level 3 primarily features the Fund's holdings in private equity funds and unquoted real estate, where the appraisal is not based on observable market data. A ten-percent change in the value of these holdings would have a one-percent impact on total Fund capital.

Change during the year in Level 3	
Purchases	837
Divestments	-83
Change in value	2 116
Reclassification between level 2 & 3	0
Total	2 870

NOTE 18 Financial risk

The Second AP Fund's risk measured as Value at Risk (VaR) for the entire portfolio of quoted assets amounted to SEK 1 913 million at year-end 2011, calculated at a 95-percent confidence level and one-day interval. Equity risk poses the greatest risk, but the Fund's portfolio of quoted assets is well diversified.

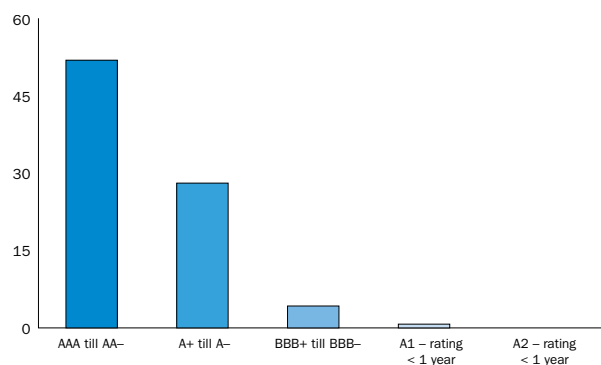
VaR is reported for the quoted portfolio. In 2012, unquoted assets will also be VaR assessed, to clarify the risk borne by the total portfolio. Unquoted assets will be included by employing a proxy (index or similar assets) for real estate, private equity and convertibles respectively.

Risk measured as Value at Risk (VaR) for the Second AP Fund's total quoted portfolio, 2011

SEK million	VaR (95%, 1 day)
Equity risk	2 276
FX risk	377
Interest risk	216
Diversification	-956
Total Second AP Fund	1 913

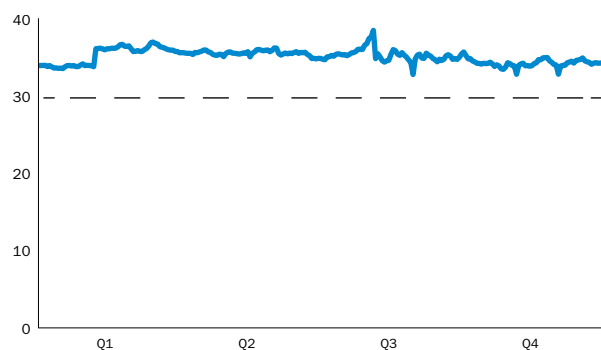
The Value at Risk measure means that there is a 95 percent probability that the Second AP Fund will lose no more than SEK 1.9 billion in a day in absolute terms.

The credit risk in the Fund's portfolio of fixed-income securities is revealed, among other things, by the allocation of holdings per rating category. The diagram shows that 79 percent of the Fund's fixed-income holdings are rated from AAA to A-, according to S & P (Standard & Poor's). Other parts consist of the Fund's investment in fixed-income funds.

Credit quality, %

Allocation of Fund's fixed-income securities per rating category.

The liquidity risk is limited, among other things, by the 30-percent rule (external investment regulations for AP1-AP4, which specify that a minimum 30 percent of the funds' total capital shall be invested in securities with a low credit and liquidity risk). In 2011, the Fund's share was about 35 percent. The Fund's fixed-income portfolio has a duration of 4.8 years. The spread in duration between different mandates varies from 3.4 to 8.4 years as at December 31 2011.

Liquidity risk, %

— Percentage of fixed-income securities with low credit and liquidity risk
 — 30-percent rule

The administration report, income statement, balance sheet and notes for 2011 have been approved by the Board of Directors.

Gothenburg, February 9, 2012

Marie S. Arwidson, Chairman

Sven Björkman, Vice Chairman

Anders Jansson

Helén Källholm

Märtha Josefsson

Jeanette Hauff

Ola Alfredsson

Lillemor Smedenvall

Lasse Thörn



Auditors' report for the Second AP Fund

Corporate identity number: 857209-0606

Report on the annual accounts

We have audited the annual accounts of the Second Swedish National Pension Fund for the year 2011. The annual accounts of the company are included in the printed version of this document on pages 19-54.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Swedish National Pension Funds Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the

company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Swedish National Pension Funds Act (2000:192) and present fairly, in all material respects, the financial position of the Second Swedish National Pension Fund as of 31 December 2011 and of its financial performance for the year then ended in accordance with the Swedish National Pension Funds Act. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the income statement and balance sheet are adopted.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts, we have examined the inventory taking of the assets managed by the Second Swedish National Pension Fund. We have also examined the administration in general of the Board of Directors and the Managing Director of the Second Swedish National Fund.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for accounting records and for the management of the fund's assets in accordance with the Swedish National Pension Funds Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the result of our examination and the inventory of the assets managed by the fund and the administration in general based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the inventory taking of the assets we examined the fund's inventory and a selection of supporting evidence.

As a basis for our opinion concerning the administration in general, in addition to our audit of the annual accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director has acted in contravention of the Swedish National Pension Funds Act.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions

The audit has given us no reason for qualification with regard to the inventory taking of assets, or the administration of the fund in general.

Gothenburg, February 9, 2012

Anna Peyron

Authorized Public Accountant
Appointed by the Swedish Government

Peter Strandh

Authorized Public Accountant
Appointed by the Swedish Government

Equities, participations and fixed-income securities

The Second AP Fund's 20 largest Swedish shareholdings*

Company name	Share of equity, %	Number of equities	Fair value, SEK m	Share of voting, %	Sector
Hennes & Mauritz B	0.55	9 052 691	2 003	0.27	Consumer discretionary
Ericsson (LM) B	0.82	26 683 552	1 879	0.47	IT
Nordea Bank	0.68	27 475 072	1 463	0.68	Financials
Atlas Copco A	0.52	6 296 535	932	0.71	Industrials
Atlas Copco B	0.32	3 927 504	514	0.05	Industrials
Volvo A	0.33	7 059 455	536	0.87	Industrials
Volvo B	0.57	11 990 624	903	0.15	Industrials
Swedbank A	0.81	9 357 091	834	0.81	Financials
Swedbank Preferensaktie	0.21	2 341 945	209	0.21	Financials
TeliaSonera	0.52	22 159 722	1 036	0.52	Telecoms
Sandvik	0.93	10 997 615	929	0.93	Industrials
Svenska Handelsbanken A	0.80	5 016 573	908	0.81	Financials
Investor A	0.03	217 002	27	0.06	Financials
Investor B	0.86	6 592 261	846	0.19	Financials
SCA A	0.06	422 883	43	0.27	Commodities
SCA B	1.05	7 543 801	769	0.48	Commodities
SEB A	0.93	20 212 119	810	0.94	Financials
SKF B	1.06	4 804 775	700	0.57	Industrials
Tele2 B	1.15	5 163 901	691	0.82	Telecoms
Assa Abloy B	0.98	3 620 687	625	0.68	Industrials
Alfa Laval	1.11	4 662 614	608	1.11	Industrials
Millicom International Cellular	0.88	870 241	600	0.88	Telecoms
Swedish Match	1.05	2 224 592	543	1.05	Consumer staples
Lundin Petroleum	0.96	3 090 121	523	0.96	Energy
Autoliv Inc SDB	1.33	1 190 912	446	1.33	Consumer discretionary

Second AP Fund's holdings in unit trusts

Swedish unit trusts	No. of equities, participations	Fair value, SEK m	Foreign unit trusts/continued:	No. of equities, participations	Fair value, SEK m
SHB Småbolagsfond	1 966 177	998	Generation Im Global Equity Fund Class I 20071201	1 016 521	1 134
Dnb Småbolagsfond (Carlson)	681 895	923	Generation Im Global Equity Fund Class A 20090401	897 189	989
Lannebo Småbolagsfonder	29 412 488	911	Blackrock Global Ascent	98 695	922
			Vanguard Euro Investment Grd Bd INS EUR Shs	609 889	901
			Bridgewater GTAA Fund	55 492	846
			Trilogy Emerging Markets Fund	104 965	814
			Wellington Opportunistic Emerging Markets Debt	8 346 253	735
			Advent Global Phoenix High Grade Convertible Fund	1 000 203	721
			CQS Archipelago Convertible Bond Strategies Fund	100 403	704
			AQR Convertible Opportunities Bond Fund	78 700	633
			Alliancebernstein Legacy Securities Sif	90 000 000	593
			Generation Im Global Equity Fund Class I 20090401	291 732	326
			Generation Im Asia Fund	492 402	289
			Bridgewater Gtaa Fund Major Market 1100-031A	23 870	167
			Bridgewater Gtaa Fund Major Market 1100-031	19 893	163
			Vanguard Uk Invest Grade Bd Index Fund Ins Gbp Shs	238 912	163
Foreign unit trusts					
State Street Enhanced Emerging Market Fund	81 635 569	5 642			
Morgan Stanley Convertible Bond Fund	16 420 293	3 235			
Blackrock Emerging Markets Index Sub-Fund	32 230 691	2 347			
Vanguard Us Invest Grade Cr Ind Ins Usd Shs	1 903 813	1 897			
Bny Mellon Emerg Mark Local Curr Invest Grade Debt	300 057 413	1 844			
Genesis Emerging Markets Class A	5 475 561	1 719			
Ashmore Sicav Emerg Mark Investm Grade Local Curr	2 503 932	1 522			
Investec Emerging Markets Investment Grade Debt	12 514 474	1 522			
Stone Harbor Emerging Market Debt	1 559 666	1 494			
Wellington Emerging Market Equity Portfolio	10 689 352	1 364			
Stone Harb Invest Grade Emerg Mark Local Curr Debt	2 002 052	1 247			

The Second AP Fund's 20 largest foreign shareholdings*

Company name	No. of equities	Fair value, SEK m	Sector
AstraZeneca	2 670 325	844	Healthcare
ABB	6 319 150	818	Industrials
Exxon Mobil	940 000	546	Energy
Apple	182 600	507	Information technology
Nestlé	839 479	336	Consumer staples
ENI	2 339 300	334	Energy
Chevron	433 500	316	Energy
IBM	234 500	296	Information technology
Procter & Gamble	639 449	292	Consumer staples
Siemens	441 610	291	Industrials
Microsoft	1 612 700	287	Information technology
Bayer	652 484	287	Healthcare
Johnson & Johnson	638 023	287	Industrials
General Electric	2 196 900	270	Industrials
Banco Santander	5 115 900	268	Financials
Oracle	1 522 432	268	Information technology
Linde	260 737	267	Materials
Total	754 960	265	Energy
At&T	1 225 800	254	Telecommunication services
Walt Disney	964 778	248	Consumer discretionary

* The above tables of Second AP Fund shareholdings list the 20 largest Swedish holdings and 20 largest foreign holdings, by worth.

The Fund's capital shares and voting rights in the foreign companies listed in the above table in no instance exceed 0.4 percent, and are therefore not reported.

A complete list of the Second AP Fund's holdings may be found on the Fund's website at www.ap2.se

Second AP Fund holdings in bonds and other fixed-income securities

Swedish nominal bonds, five largest holdings

Bond	Fair value, SEK m
Swedish Government 1051	3 019
Spintab Swedmortgage AB 177	2 811
Stadshypotek AB 1574	2 802
Swedish Government 1052	2 338
Swedish Government 1047	2 007

Global credits, five largest holdings

Bond	Fair value, SEK m
Municipality Finance PLC 2.375%	287
Kommunalbanken AS 2.25%	217
Rabobank 2.375%	201
Eksportfinans A/S 5.5%	190
UBS AG London 3%	185

Swedish inflation-linked bonds, five largest holdings

Bond	Fair value, SEK m
Swedish Government 3104	712
Swedish Government 3105	629
Swedish Government 3102	507
Swedish Government 3107	194
Swedish Government 3108	87

Global government bonds, five largest holdings

Bond	Fair value, SEK m
Denmark (Kingdom of) 3.165%	316
US Treasury Notes 3.75%	263
United Kingdom 4.25%	255
BTNS 2.5%	185
BTPS 6%	181

Detailed information about Second AP Fund holdings in fixed-income securities is available on the Fund's website at www.ap2.se



Second AP Fund governance report

To comply with the Annual Accounts Act and the Swedish Code of Corporate Governance, Swedish quoted companies are required to submit a corporate governance report.

The Code is considered to set the tone for what shall be considered good practice for corporate players on the Swedish stock market. This Fund governance report has derived inspiration from the Code of Corporate Governance, while also taking into account the special characteristics that apply to the Second AP Fund.

Like the other AP funds, Second AP Fund is a state agency. Even so, the difference between the AP funds and other state agencies is considerable. The greatest difference is that the AP funds enjoy a high degree of independence from the Swedish Government, because their operations are almost exclusively governed by law and the Government thereby has no provision in law to exercise control over them.

The Board

The Board of Directors of the Second AP Fund, which is appointed by the Swedish Government, comprises nine Members. Two are appointed in accordance with proposals submitted by organizations that represent employees' interests, two in accordance with proposals submitted by organizations that represent employers' interests. The Chairman and Vice Chairman are appointed by the Government, selected from the Members of the Board not put forward by employer or employee organizations. Each director shall be appointed on the basis of his/her individual ability to enhance the management of the Fund.

In May 2011, the Swedish Government decided on a new Board, involving two changes since 2010. Roland Svensson, who

has served as a director since the Fund was established, left the Board of Directors and Helén Källholm was appointed a new Member. To date, the Government has chosen to implement twelve month mandate periods for Board Members, whereby current appointments remain in effect until the Fund's balance sheet and income statement for 2011 have been adopted.

The Board has full and undivided responsibility for the operations of the Fund, within the parameters established by the Swedish Parliament concerning the organization of the Fund and management of its assets. In instances where the work of the Board falls outside the terms of the Swedish National Pension Funds Act, it is governed by the rules of procedure annually adopted by the Board.

Fees and other remuneration paid to Board Members are determined by the Swedish Government. The remuneration paid per annum amounts to SEK 100 000 for the Chairman, SEK 75 000 for the Vice-Chairman and SEK 50 000 for the other Members of the Board. No fees are paid for committee work carried out by board members.

The work of the Board

The most important tasks assigned to the Board of the Second AP Fund involve the establishment of operational targets, the recruitment and evaluation of the CEO and the taking of decisions concerning broad strategic issues, such as the composition of the Fund's strategic portfolio. To ensure that the Board's decisions are implemented, that intrinsic risks are managed and that the Fund's operations are in all other respects conducted in an appropriate manner, effective control and follow-up are essential.

During the year, the Board held six ordi-

nary meetings, one being of greater duration, at which broad strategic issues were addressed, with special emphasis on investment strategy, macroeconomic developments and the evaluation of the Board's activities. As well as Board Members, Board meetings are attended by the Fund's CEO and the Secretary to the Board. Other Fund employees may also participate, in an advisory role as experts or to submit a report on a given issue. The CEO's performance is evaluated once a year. The CEO does not attend this meeting.

Fund targets

The Fund is committed to minimising the consequences that derive from activation of the automatic balancing mechanism, by generating a solid return on invested capital. To meet this requirement, the Second AP Fund has composed a portfolio that is expected to generate an average annual real return of five percent over the long term.

Strategic portfolio

A new strategic portfolio has been approved for 2012.

Discussion about performance, governance issues and costs

The Fund's management performance is reviewed at every Board meeting. The Board regularly discusses fundamental governance issues, the strategic allocation of assets and investments in private equity funds and real estate.

Cost trends are considered on a quarterly basis, and the Board regularly reverts to the issue of the Fund's cost efficiency. Its annual responsibilities also include decisions concerning the adoption of the year-end accounts, the budget, business plan and strategic portfolio.

Board Committee

The Board has established a Remuneration Committee. The Remuneration Committee consists of the Fund's Chairman and Vice Chairman. The CEO is normally co-opted to meetings of the Remuneration Committee. The CEO is not present when the Committee determines his/her remuneration.

The Remuneration Committee is a drafting committee for the Board, tasked with considering the level of remuneration for the CEO, establishing guidelines for the remuneration of the Fund's executive management and determining issues related to incentive programmes for Fund employees.

Decisions reached by the Remuneration Committee are submitted for consideration by the Board at its next meeting.

During autumn 2011, the Board resolved to establish a Risk Committee. The Risk Committee, whose members are appointed by the Board, shall advise, monitor and provide support to the Board concerning the Fund's risk control and risk management activities. The Risk Committee shall comprise at least two Members of the Board, as well as the Fund's CEO and the Head of Performance and Risk Management.

The Risk Committee is not authorised to make decisions on behalf of the Board or Fund, except in those cases where such authority has been delegated by the Board. The responsibility of the Board and its individual directors is in no way reduced by the establishment of the Risk Committee or its duties. The operations of the Committee shall be conducted according to an agenda determined by the Board on an annual basis.

Audit

The Second AP Fund's auditors are appointed by the Government. Current re-

sponsibility for the audit is shared by Anna Peyron and Peter Strandh, from Ernst & Young, who were appointed on April 7, 2011. Ernst & Young is also tasked with conducting the audits of the other AP funds, and Anna Peyron has furthermore been appointed to coordinate the audits of all AP funds.

The appointment applies until adoption of the Fund's income statement and balance sheet for 2011.

The auditors submit an audit report, as well as making an oral report direct to the Board at least once a year. They also submit written reports concerning their audit of the annual accounts administration and a report to the Ministry of Finance once a year.

The auditors' assignment includes inspection of current business operations, the administration, the annual accounts and the annual report. The auditors express their opinion of the annual accounts and administration, based on their audit. This assignment also includes an assessment to determine that the accounts of the Second AP Fund have been prepared in compliance with generally accepted accounting and valuation principles jointly determined by the AP funds, and that they provide a true and fair picture of the Fund's financial position.

The audit has also involved an examination of the Fund's guidelines on remuneration in compliance with the Swedish Government guidelines on remuneration to key executives and employees, and compliance with these. A separate statement has been submitted, see the Second AP Fund website at www.ap2.se.

Internal control

The Board has ultimate responsibility for the Fund's internal control. In the Fund's risk policy, the Board has established frameworks and guidelines for the overall

allocation of responsibilities, risks, risk limits and routines to monitor and control that such guidelines are observed.

The Risk Management Department ensures that these risk parameters are respected. Implementing this risk control process ensures that the organization, as a whole and in its individual elements, keeps within the specified limits and observes the restrictions and instructions that apply.

Ongoing internal control of the Fund's financial and operational risks is handled by the Risk Management Department. The Department is organizationally independent of functions that are engaged in active-trading decisions.

This risk control process is based on the generation of effective and transparent riskreports and analyses. Reporting to the Fund's executive management is conducted on a daily basis, while regular updates are submitted to the Board at its meetings.

Board Member	Attendance/ total meetings	Comments
Marie S. Arwidson	6/6	
Sven Björkman	5/6	
Anders Jansson	5/6	
Roland Svensson	2/2	Res. April 2011
Märtha Josefsson	6/6	
Lillemor Smedenvall	5/6	
Lasse Thörn	5/6	
Jeanette Hauff	6/6	
Ola Alfredsson	6/6	
Helén Källholm	4/4	App. April 2011

Board of Directors



Marie S. Arwidson

Chairman since 2010. Managing Director of the Swedish Forest Industries Federation. Directorship on the board of the Swedish Transport Administration. Directorships on the boards of the International Chamber of Commerce Sweden and the Royal Swedish Academy of Engineering Sciences. M.Sc. (Econ). Born 1951.



Sven Björkman

Vice Chairman since 2009. Former head of SEB Region Väst. Born 1949.



Helén Källholm

Member of the Board since 2011. Managing Director of Svenska kyrkans arbetsgivarorganisation (Church of Sweden Employers' Federation). Born 1957.



Jeanette Hauff

Member of the Board since 2010. Active at Gothenburg University's School of Business, Economics and Law. Savings Advisor at Skandia. L.Econ. Born 1965.



Lillemor Smedenvall

Member of the Board since 2006. Chairman of Finansförbundet. Directorships on the boards of TCO (Confederation of Professional Employees) and Sparinstitutens Pensionskassa (SPK). Born 1950.



Ola Alfredsson

Member of the Board since 2010. CEO of Kockums AB. Born 1964.



Lasse Thörn

Member of the Board since 2010. Head of the Working Life Unit at the Swedish Trade Union Federation (LO). Vice Chairman of Prevent. Judge at the Swedish Labour Court. Born 1960.



Anders Jansson

Member of the Board since 2005. President and CEO of Stena Metall AB. Formerly President of Volvo Car Finance, head of Global Trading at Handelsbanken Markets, and President of Volvo Group Finance. Directorships on the boards of Stena Drilling and Stena Adactum. Born 1957.



Märtha Josefsson

Member of the Board since 2003. Independent investment consultant. Directorships on several boards, including Fabège, Luxonen, Skandia Funds and Cityhold Property. Member of several investment committees. B.A. Born 1947.

Executive management

Tomas Franzén, Chief Investment Strategist (CIS). Employed since 2001. Born 1957.

Hans Fahlin, Chief Investment Officer (CIO). Employed since 2010. Born 1957.

Eva Halvarsson, CEO. Employed since 2006. Other directorships: Vasakronan AB, Norrporten AB, FinansKompetenscentrum and the Swedish Corporate Governance Board. Vice Chancellor of Gothenburg University. Born 1962.

Martin Jonasson, General Counsel. Employed since 2001. Born 1964.

Ola Eriksson, Head of Business Control, Financial Control and IT, and a member of the Fund's executive management since December 1 2011. Employed since 2001. Born 1965.

Ulrika Danielson, Head of Communication & HR. Employed since 2009. Born 1965.

Not in photo:

Henrik Westergård. Will take up his new post as Head of Performance and Risk Management at the start of 2012. Born 1973.

Lena Smeby-Udesen Chief Financial Officer (CFO). Employed since 2001, but left the Fund in January 2012.



Auditors

Anna Peyron, Authorised Public Accountant, Ernst & Young.
Peter Strandh, Authorised Public Accountant, Ernst & Young.

Definitions

Absolute return on investment

The return generated on a portfolio or portfolios of assets, measured in kronor or percent, of the original invested amount.

Active/Passive management

Active management: Portfolio management actively deviates from the benchmark index to add value.

Passive management: Portfolio management strives for a return equal to the benchmark index.

Active risk/Tracking error

The variation in relative return. Often measured as standard deviation on the relative return. Active risk is calculated using daily data to determine relative return.

Alpha/Beta

Alpha: A positive Alpha value is the additional return the investor gains as a reward for having taken a greater risk than merely following the market as a whole, via normal index.

Beta: Beta simply describes market exposure. Exposure to different markets is determined by the composition of the strategic portfolio.

ALM study

Asset Liability Modelling. An analytical model used to determine the Fund's strategic portfolio. The study, which is revised on a continual basis, is designed to determine the optimal composition for the different asset classes under Fund management, to ensure that it satisfies the Fund's long-term commitment to the collective requirements of the Swedish national pension system. The judgements based on this analysis shall take into account demographic change as well general economic trends.

Benchmark index

Index based on the Second AP Fund's strategic portfolio, against which the Fund's management performance is measured.

Credit/Counterparty risk

Credit risk: Refers to the risk that an issuer may become insolvent or be awarded a lower credit rating.

Counterparty risk: Refers to the risk that the other party may be unable to meet its business obligations.

Credit spread

The yield difference arising from the difference in creditworthiness between two otherwise comparable bonds.

Discretionary mandate

A mandate that is limited and specific to a single investor. The alternative to discretionary management is traditional fund management.

Duration

A measure of interest risk that yields an asset-relative change in value with an interest adjustment of one percentage unit.

Enhanced mandate

Index-linked management mandate with a low level of active risk, driven by quantitative models.

Fair value

Fair value is defined as the amount for which an asset may be transferred or a debt settled, between parties who are mutually independent and who have a vested interest in completing the transaction. Normally speaking, this means that listed assets are valued at the buying-rate (market value) and that the fair value of unlisted assets is estimated with the help of generally accepted valuation models.

FX forward contract

A derivative instrument involving a contract to purchase foreign currency at some future date at a predetermined rate of exchange.

GTAA

Global Tactical Asset Allocation mandate. A mandate that applies a TAA strategy on a global basis.

Implementation effects

Contributions to the overall return that derive from implementation of the strategic portfolio and index switches.

Implicit volatility

The forecast volatility of an asset class.

Information ratio

A gauge of risk-adjusted relative return. Measured as relative return, divided by active risk/tracking error.

Interest swap

A contract between two counterparties, in which one interest flow is exchanged for another. Normally, the undertaking given by one party to pay a fixed rate of interest is exchanged for the other party's undertaking to pay a floating rate of interest.

IPEV

International Private Equity and Venture Capital Valuation Guidelines.

ISDA contract

International Swaps and Derivatives Association. An ISDA contract is a standard contract for the regulation of trading in derivatives between two counterparties.

Liquidity risk

Refers to the risk that securities cannot be converted into cash, because of reduced access to or demand from the market, which either precludes the purchase or sale of such securities, or would require their sale at a loss.

Market risk

The market risks most relevant to the Second AP Fund are share-price risk, interest-rate risk and currency risk.

MSCI index

International equity indices managed by Morgan Stanley Capital International.

Operative risk

Refers to the risk that an error or stoppage in operations could lead to economic loss or reduced credibility.

Quantitative management

Portfolio management that focuses on exposing incorrect market pricing with the help of a mathematical model.

Relative return

Portfolio return compared to return on Fund's strategic portfolio. The return is cleared of commission and operating expenses.

S&P 500

Standard & Poor's 500 composite index. A cap-weighted share index of 500 US companies. Selection is based on size, liquidity and industrial sector, among other factors.

Sharpe ratio

A gauge of risk-adjusted return. Measured as the portfolio's absolute return less risk-free interest (SSVX 12 months), divided by the standard deviation on absolute return.

SIX RX

Six Return Index. A cap-weighted share index, reflecting average growth on the Stockholm Stock Exchange, including dividends.

Strategic portfolio

The Second AP Fund's strategic portfolio is determined annually by the Board of Directors and confirms the Fund's decision on strategic asset allocation.

TAA

Tactical Asset Allocation. A portfolio management strategy focused on overperformance in diverse asset classes.

Value at Risk, VaR

A measure of risk that indicates the maximum loss, based on a given confidence level, that a portfolio may incur over a given period. VaR is normally calculated at a confidence level of 95 percent, and for a ten-day interval.



Andra AP-fonden
Second Swedish National Pension Fund - AP2