

Andra AP-fonden
Second Swedish National Pension Fund - AP2

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With SEK 300.6 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 long-term and responsible manager of assets, the Fund is tasked with an important assignment by the Swedish Government — minimizing the impact on future national pensions that would derive from applying 'the brake'.

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Excess return when most needed

The Second AP Fund managed to generate a relative return of 0.9 percent, despite a financially turbulent year.

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Swedish equities

This asset class noted a return of 15.2 percent for fiscal 2015, outperforming comparable indices.

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Fund governance

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Costs

The internalization process is complete and contributing to increasingly costefficient asset management.

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.

^{*} 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.

The Second AP Fund

The Second AP Fund is one of five buffer funds within the Swedish pension system, tasked with maximizing long-term return – and at low risk to pension disbursements. A committed asset manager, the Fund invests worldwide. Consistent and responsible fund management has helped ensure that the return generated on portfolio assets has exceeded the Fund's long-term commitments.

The buffer funds account for approximately 14 percent of the Swedish national pension system's total assets. In conjunction with the other buffer funds, the Fund is tasked with contributing to maintaining as high and consistent pension levels as possible, even during periods affected by peaks in the number of retirees, or by an economic downturn. The Second AP Fund shall therefore adopt a long-term approach, with a view to securing the managed buffer capital over the long-term.

Strategic management model

The Fund's strategic management model is based on financial theory and incorporates long-term forecasts covering demographic, socio-economic and capital-market developments. Despite the turbulent financial markets of the past 10–15 years, the Fund's performance has proved solid, both in absolute terms and in comparison with similar funds, whether seen from a national or international perspective.

Efficient and sustainable portfolio management

The Second AP Fund is an attractive employer, with a staff of around 65. It employs some of the foremost in their respective fields, as portfolio managers, analysts and other specialists. Together, this workforce ensures efficient portfolio management, 83 percent of assets being managed in-house. One consequence has been that the Fund's management costs are lower than those of similar funds at an international level.

The Fund adopts an active approach to ethical, environmental and corporate governance issues, and has come far in making sustainability integral to portfolio management. 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.

Average return over past five years

8.2%

Fund's net result 2015

SEK 11.7_{bn}

2015 in brief

Consequent to the Second AP Fund's strong performance over the year, return on investment exceeded the anticipated long-term return. In the past five years, the Fund's average annual real return has totalled 7.8 percent and, over the past ten years, 4.8 percent. 2015 was a good year, especially with respect to the Fund's investments in listed equities. The Fund's relative return was 0.9 percent. For the seventh year in succession, net outflows to the pension system were negative and the Fund has now paid out a total of almost SEK 30 billion to cover the current shortfall in the pension system.

Fund capital

SEK 300.6 bn

The Fund's assets under management totalled SEK 300.6 (293.9) billion on December 31, 2015.

Net result

SEK 11.7_{bn}

The Fund posted a net result for the year of SEK 11.7 (34.3) billion.

Operating expenses

0.07%

The expense ratio for operating expenses remained low, totalling 0.07 (0.07) percent for the year.

Net outflows to the national pension system

SEK **-4.9** by

Net outflows to the national pension system of SEK -4.9 (-5.1) bn.

Relative return

0.9

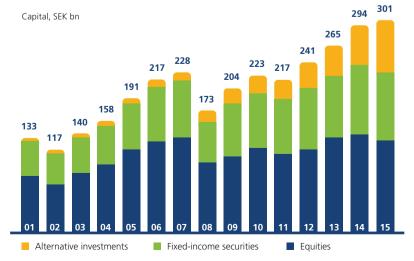
The relative return on the total portfolio, excluding alternative investments and operating expenses, amounted to 0.9 (0.5) percent.

Total return

4.1

The Fund's return on the total portfolio was 4.1 (13.3) percent, excluding commission fees and operating expenses. Including these costs, the portfolio generated a return of 4.0 (13.1) percent.

Capital since start



Despite the unstable financial climate, the Fund managed to generate a return of 4.1 percent, increasing its capital assets by

Eva Halvarsson, CEO, Second AP Fund. See Chief Executive's Review (page 3) for further details.

11.7 billion.



Performance review since start

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Fund capital, SEK m	300 624	293 907	264 712	241 454	216 622	222 507	204 290	173 338	227 512	216 775	190 593	158 120	140 350	117 090	133 493
Net outflows to national pension system, SEK m	-4 944	-5 120	-6 880	-3 788	-1 240	-4 041	-3 906	831	991	1 568	2 312	1 397	2 143	1 985	3 062
Contribution from liquidation fund/special management fund, SEK m	0	0	0	0	0	0	0	53	1 028	108	593	254	424	3 017	1 461
Net result for the year, SEK m	11 661	34 315	30 138	28 620	-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, %	4.1	13.3	12.8	13.5	-1.9	11.2	20.6	-24.0	4.2	13.0	18.7	11.6	17.8	-15.3	-3.7
Return on total portfolio incl. operating expenses, %	4.0	13.1	12.7	13.3	-2.1	11.0	20.3	-24.1	4.0	12.8	18.5	11.4	17.7	-15.4	
Relative return on listed assets, excl. alternative investments, commission fees and operating expenses, %1	0.9	0.5	0.4	1.1	-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, %	0.4	0.3	0.3	0.3	0.3	0.3	0.6	1.0	0.7	0.7	0.5	0.5	0.6	1.0	1.7
FX exposure, %	30	24	23	20	16	12	10	12	11	12	11	10	8	7	10
Share of external mandates, %	17	28	25	29	29	23	24	22	24	17	28	37	45	38	82
Asset management cost as share of operating expenses, %	0.07	0.07	0.07	0.07	0.07	0.08	0.08	0.08	0.06	0.06	0.07	0.08	0.09	0.11	
Asset management cost incl. commission expenses, %	0.18	0.17	0.17	0.16	0.17	0.17	0.18	0.16	0.13	0.15	0.16	0.22	0.18	0.16	
Annualized return after operating expenses (5 years), %	8.0	9.4	10.8	2.4	0.6	3.5	4.9	3.3	12.8	8.1	4.9				
Annualized return after operating expenses (10 years), %	5.7	7.1	7.0	7.4	4.3	4.2									

¹ Relative return refers to the difference in return between a portfolio and its benchmark or reference index.



CHIEF EXECUTIVE'S REVIEW

Excess return when most needed

Early 2015 saw the Second AP Fund's total capital assets pass the SEK 300 billion mark for the first time. This should be compared with the SEK 134 billion the Fund started with in 2001. Furthermore, the Fund has achieved an accrued net result of SEK 175.3 billion since start. Fund capital amounted to SEK 300.6 billion by the end of 2015, during which SEK 4.9 billion was transferred to the pension system. Return on investment was 4.1 percent and assets under management generated about one percent in active return.

In summarizing 2015, there is no doubt that it was an unusually difficult year to predict, featuring political uncertainty, sustained monetary measures and financial turbulence on many markets, especially on emerging markets. During the autumn, these noted growing volatility, having a negative impact on profit growth. Despite the unstable financial climate, the Fund managed to generate a return of 4.1 percent, increasing its capital assets by SEK 11.7 billion. At the same time, we implemented several key measures to develop the Fund's organization, ensuring that we continue to maintain conditions conducive to creating a stable return on invested assets for future pensioners. Over the past ten years, we have generated an annual average return of 5.9 percent, exceeding our long-term target.

Especially in light of the overall market development during the year, it is gratifying to note that our active management of assets generated an excess return of no less than SEK 2.2 billion. It is particularly pleasing that we succeeded in both bull and bear markets. Our portfolio of Swedish equities enjoyed an excellent year, producing an excess return of SEK 1.6 billion.

Long-term perspective

Management of the Swedish national pension system's buffer capital requires an extended time horizon. The Second AP Fund adopts a 30-year perspective for its portfolio, to meet the pension system's future requirements in the best possible way. It is important that we maintain our commitment to this long-term strategy, despite the temporary ups and downs of financial markets. During 2015, our high weighting in Swedish equities relative to the portfolio's weighting on the global market has proved successful. The return on Chinese Series A equities, an investment that received additional capital at the start of the year, has

also been excellent. In contrast, the performance of other emerging-market equities has been disappointing, and their relatively high weighting in our portfolio has therefore contributed negatively to the result. Emerging-market bonds, which generated a strong return in 2014, moved in the opposite direction in 2015, if to a lesser extent. Taken overall, our alternative investments have performed well and in line with the return generated by equities on developed markets. Seen in a broader perspective, this long-term and well-diversified approach has been a key factor in the Fund's success, contributing to its strong performance from start. I am convinced that this will also continue to be the case in future.

Internalization complete

The internalization process initiated in 2012 was completed as planned in 2015, with the reversion of global credits and emerging market fixed-income securities from external to in-house management. This internalization process means that, over some three years, assets of more than SEK 50 billion have reverted from external to internal management. The in-house management of this capital will mean a significant cost saving in the long term, while also enabling us to better utilize and develop the high levels of competence within the Fund.

Implementing an internalization process of this magnitude would have been impossible without the knowledge and culture that characterizes our organization. Autonomous teams and individual members of staff who, over and above their specified responsibilities, shoulder responsibility for the entire business process and collaborate freely have been decisive to the successful implementation of this process.

The Second AP Fund Annual Report 2015

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New custodial bank and developed risk system

During the year, we negotiated and implemented a contract with a new custodial bank. Consequently, commitments totalling some SEK 230 billion were transferred during December. The achievement of such a radical change, in parallel with completion of the internalization process, further proves the strength of our organization. The procurement process for a custodial bank was conducted in collaboration with the Third AP Fund, demonstrating the excellent cooperation between AP Funds.

Another change introduced last year was the implementation of a completely new and advanced risk system. As well as establishing better opportunities for follow-up, the new risk system offers an improved understanding of investments and greater potential for building up the portfolio from a risk perspective. The system support also enables ESG (Environmental, Social and Governance) analyses of the portfolio. Ultimately, the system offers a greater degree of control, improving the prospects of making wiser investment decisions, thereby ensuring a better return for Sweden's pensioners.

Formalized ESG strategy

An active commitment to sustainability issues has long been high on the Second AP Fund's agenda, not only from a strict sustainability perspective but also with a view to being able to make the best investment decisions. In 2015, we advanced a step further in this field, by formalizing our overall ESG strategy. Our vision is to make ESG an integral part of all analytical and investment processes. In implementing this strategy, based on a financial risk perspective, our commitment to sustainability will target four areas – climate, diversity, reporting and governance.

In December, I took part in a panel debate about sustainable investments at the 2015 World Climate Summit in Paris. The meeting further endorsed my conviction that the finance industry needs greater knowledge of – and competence in – sustainability issues, if it is to achieve better investment decisions. This offers a way in which we can function as a catalyst and promote positive progress concerning these issues.

This perspective was important when, last year, we continued our ESG analysis of the portfolio, with a view to improving our ability to forecast the consequences of our investment decisions. This analysis concentrated on climate risks, as a result of which we decided to reduce our financial risk during the year regarding

investments in power companies whose profits derive primarily from the coal-powered generation of electricity. Consequent to this decision, we divested our interests in 28 power companies.

Focus during 2016

A significant cause for uncertainty during 2015 was the memorandum issued by the Ministry of Finance, containing proposals to introduce a whole range of changes in the way the AP Funds are structured. The December decision by the National Pensions Group not to proceed with the proposals means that we shall continue to focus on the important task currently entrusted to us.

During 2016, we shall draft a new three-year plan to achieve our vision of world-class asset management. Furthermore, we shall make sure that the internalization process of recent years, the new risk system and the new custodial bank – as well as intensified monitoring of non-listed assets – all come together.

As always, it is difficult to predict future developments and whether the financial markets will remain subject to uncertainty and volatility. What I can claim with certainty, however, is the fact that – over the past few years – we have built up an organization that is well equipped to face still more turbulent times. The platform created by our working approach and our highly competent staff means that we have what it takes to manage continuing market turbulence and to be able to continue operating within the parameters of our long-term strategy. The will to raise the crossbar even higher and continue to constantly identify potential improvements is a quality shared by all our staff.

Decisive to the successful outcome of our long-term task is the ability to persevere with our chosen approach, while at the same time constantly testing our assumptions, to determine that the strategy we have chosen remains viable. As well as considerable competence, this demands an open and flexible organizational culture: which is precisely what we have at the Second AP Fund. Our focus – now and always – is to do our very best for current and future pensioners!

Eva Halvarsson, CEO



THE SWEDISH PENSION SYSTEM

The Swedish pension system – a robust concept

When the current Swedish national pension system was introduced in 2001, it heralded an entirely new structure and new responsibilities for the AP funds. The funds' role as a buffer within the pension system was defined. A direct correlation was established between the return on fund assets and growth in the value of the income-based pension. Today, the buffer funds account for approximately 14 percent of the pension system's capital assets.

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 pension system is the automatic balancing mechanism, or 'brake'. This ensures that pensions are adjusted upward more gradually at times when liabilities exceed assets.

A robust system

From a financial perspective, the Swedish pension system 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 (adjusted according to the pension system's so-called norm) and salaries grow at the same rate. If the economy performs less well, with fewer in work, there is a risk that the 'brake' must be applied and pension growth will fall behind salary growth, until the system returns to balance.

The Swedish pension system has taken key steps to meet the challenges posed by demographic pressures. Sweden launched its reformed pension system fifteen years ago. This makes Sweden an interesting example for many countries in Europe and other parts of the world.

Since 2001, the Second AP Fund has built up capital assets totalling SEK 300.6 billion, making it one of northern Europe's largest pension funds. In international terms, the Swedish AP funds are together among the largest national pension funds in the world.

Clear 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. In all, the buffer funds account for approximately 14 percent of total pension assets. The other 86 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/wage levels and retirement age.

Balancing the system

The size of pension is determined by length of time worked and level of income, and how the mean rise in income has been. 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. Once pension assets again exceed liabilities, pensions are readjusted.

The increase in the value of the AP Funds' capital assets has helped prevent the need to apply the 'brake' for a number of years now. In 2008, however, the brake was applied in response to the sharp downturn experienced by global stock markets and the preceding years' upward adjustment of pensions and pension rights. Once applied, this impacted on pensions in 2010. The brake was applied yet again in 2009, in response to the sharp downturn in the economy and a rise in unemployment in the wake of the global financial crisis.

Net outflows expected to continue

After the first net outflow in 2009 (the difference between national pension contributions, which are paid to the AP Funds, and pension disbursements, which are financed from the Funds' capital assets), the AP funds have disbursed more in pension payments than they have received in the form of contributions. As a consequence of an anticipated high level of new retirees over the next few years, this net outflow is expected to continue for a considerable time.

In 2015, net outflow amounted to SEK –4.9 billion, compared with SEK –5.1 billion in 2014.

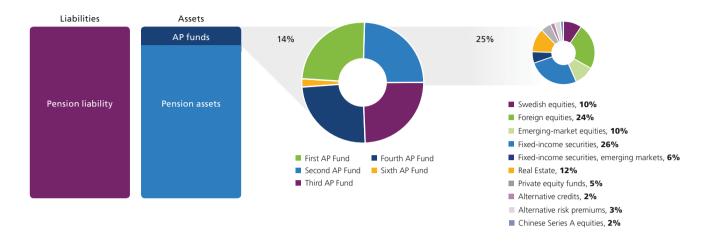


More about Sweden's national pension system at **www.pensionsmyndigheten.se**

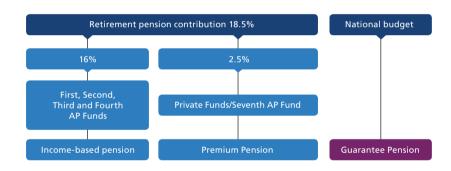
Pension system balance sheet

Buffer fund shares

Second AP Fund capital



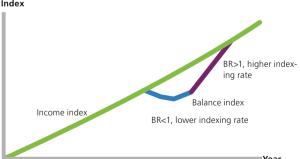
The Swedish pension system



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 annual disbursements (income-based pension) from the First, Second, Third and Fourth AP Funds, 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.

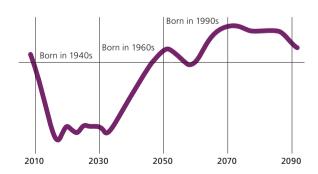
Automatic balancing mechanism

Index



The balance ratio (BR) represents the system's assets divided by combined pension liability. If the balance ratio is less than one, 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. Once the balance ratio has regained a value in excess of 1, this triggers a more rapid upward adjustment in wage growth.

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 will exceed contributions up to 2050.

THE MISSION

To act as a buffer fund

As a buffer fund, the Second AP Fund's long-term mission is to maximize the return on pension assets under management, with a view to promoting strong growth in pension assets and thereby contributing to pari-ty in the pension system, even when economic and demographic factors are in a state of flux. This is stated clearly in the Swedish National Pension Funds Act.

The AP funds' mandate includes 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.

Mission and objective

The mission and objective, as described in the Act and its preliminary drafts, define clear principles that the AP Funds shall observe in managing their pension assets. The purpose of the Fund's investment activities, as determined by its Board of Directors, is to minimize the negative effect on pensions that would derive from applying the 'brake'. Based on an analysis in which portfolio choice is integrated with an assessment of how the pension system as a whole is likely to develop over the long term, the strategic portfolio selected will be the portfolio judged best able to contribute to achieving the defined investment objective.

The mission requires equal treatment of all generations, in compliance with the principle of 'generation neutrality'. For this reason, long-term commitments regarding return and risk, whether in relation to individual assets or the portfolio as a whole, are absolutely crucial when composing the strategic portfolio. Once finalized, the selected portfolio may be defined in terms of anticipated return on investment and risk.

Purpose linked to pension system

The Fund's purpose is linked to the pension system and the anticipated effect of investment on pensions. The anticipated return, which is defined as a percentage, describes the properties exhibited by the long-term portfolio most likely to generate the greatest benefits in the form of pension disbursements.

As instructed, the Second AP Fund has composed a portfolio that, including active return, is expected to generate an average long-term real annual return of 4.5 percent.

In the past ten years, the Second AP Fund has generated a return of 77.7 percent, corresponding to an average annual return of 5.9 percent. Adjusted for inflation, this corresponds to an annual real return of 4.8 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 generation neutral long-term growth prospects for future pensions.

Benchmark index

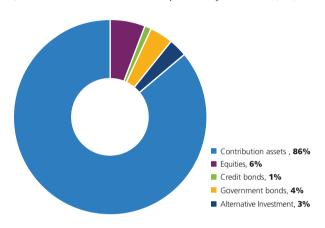
The Second AP Fund considers the choice of index to be part of the strategic investment process, where the index determines the investments selected for subsequent portfolio management, inhouse and external. The Fund complements the broad and more traditional cap-weighted indices with more specialised indices.



More about the Fund's management strategy at www.ap2.se

Asset allocation, Swedish national pension system

(The Second AP Fund's share of pension system assets, %)



Strategic portfolio 2015

(% of Fund capital)



The Second AP Fund's first strategic portfolio 2001

(% of Fund capital)



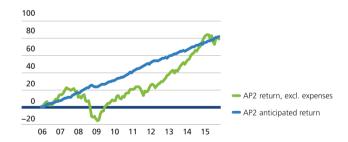
The upper pie chart at right shows the allocation of assets in the Second AP Fund's 2015 strategic portfolio, while the lower chart illustrates the first strategic portfolio, 2001. The above pie chart at left shows the same allocation of assets for the pension system as a whole, taking into account that the AP funds' answer for approximately 14 percent of the Swedish national pension system's combined assets. In other words, about 86 percent of pension system assets are in no way exposed to the financial markets.

Source: Försäkringskassan (Social Insurance Office) and in-house calculations.

Second AP Fund value creation, %



Accumulated return, ten years, %



Active management

The nature of the Fund's active management is determined by the index chosen. The intention is that international and external management shall outperform the indices selected by the Second AP Fund. 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.

MACRO

Multiple factors drive the global economy

A number of fiscal trends have dominated the economic landscape in 2015. Most obviously, growth in the developed economies has been relatively strong, but relatively weak in the emerging economies. Another trend is that the service sector has performed well, while industry's performance has been weak. A third is the fact that inflation has remained very low, enabling central banks to continue to pursue expansionary monetary policies.

The developed economies have driven the global recovery

The global economy has benefited from strong growth in the developed economies, while growth in many of the emerging economies has been weak.

The US economy continued to improve at the beginning of 2015, although this optimism declined fairly soon with the publication of disappointing macroeconomic statistics. This weakening proved temporary and weather-related, after which there was a steady improvement over the rest of the year. Growth was driven primarily by an increasingly buoyant labour market, which saw the creation of some 200 000 new jobs every month. As a result, unemployment fell by five percent over the year. The fact that the US dollar strengthened at the same time meant that US exporters faced stiffer competition on the global market. However, because the US economy is to a great extent driven by domestic demand, which has been strong, this has served to balance weaker external demand.

In Europe, much attention once again focused on Greece, after the populist left-wing party Syriza won the country's election at the end of January. Syriza wanted to introduce radical changes to the structural reforms that the government of the time had agreed with the country's creditors. Initially, an agreement was reached to extend the loans over a further four months. During the summer, when Syriza's leader, Alexis Tsipras, unexpectedly announced a national referendum questioning the terms of the proposed package of support measures, the crisis worsened dramatically, resulting in the closure of banks and the cancellation of loan payments. Negotiations continued after the referendum and a new rescue package was secured. At the same time, economic growth in Europe was surprisingly positive, helped by a weaker euro and the lower price of oil. Simultaneously, the European Central Bank (ECB) eased monetary policy still more, keeping interest rates at record low levels. A gradual fall in unemployment and rising consumer confidence have boosted retail sales and contributed to growth during the year.

The Swedish economy grew more than expected in 2015. The Swedish central bank, Riksbanken, continued to stimulate the economy by reducing the key lending rate while also implementing so-called quantitative easing. This involved the Bank's purchase of Swedish government securities to further reduce the interest rate. The sole purpose of such 'quantitative easing' has been an attempt to raise inflation. The Swedish economy has benefited from the low interest rates, generating one of the highest rates of GDP growth in Europe. The rate of inflation has only slowly started to rise and only time will tell whether Riksbanken's strategy will succeed.

Weakness of emerging economies

Of the four major emerging economies – Brazil, Russia, India and China – Brazil and Russia have suffered most from weak growth, both countries finding themselves in recession during 2015. Even China has seen a slowdown in its growth rate, although not nearly as dramatic. Growth in India developed well, however, benefiting from falling commodity prices and an ambitious reform programme.

The underlying cause of Brazil's weak economic development derives partly from the fact that the decline in commodity prices has had a severe impact on the economy, given the country's position as a major exporter of raw materials. This has coincided with a simultaneous decline in corporate and consumer confidence in response to a worsening political climate, which in turn is partly a consequence of the major corruption scandal that has engulfed Petrobras.

Russia's weak economic performance is closely linked to the sanctions implemented against the country by the West, in the wake of Russia's annexation of the Crimean peninsula and involvement in the war in Eastern Ukraine. To add to Russia's woes, there has been a sharp decline in the price of oil, which has led to a dramatic loss of revenue for the country.

China triggered fall on financial markets

When China decided on a modest devaluation of the yuan against the US dollar in August, this was interpreted as a sign that growth in China was significantly weaker than many had thought, causing sharp falls on stock markets around the world. This devaluation led to growing alarm and the financial markets feared that weak Chinese growth would drag the global economy into recession. The Fund did not share this view. This gradual decline in the rate of growth is fully in line with the Fund's expectations. This is based on the recognition that the pace of Chinese development compares well with the way things have developed in other countries that have achieved similar changes in terms of social structure. This down-shift in the pace of growth is driven by a gradual transformation from an investment-led to a more consumer-led economy. This also means that industry's share of the economy contracts, as the service sector expands. It is clear that China is now undergoing this transformation, which will continue for many years to come.

Service sector expands as industry marks time

Another clear economic trend during the year is that the manufacturing industry has been struggling, in contrast to the service sector, which has generally noted positive growth in many countries. This applies in cases as distinctly different as the USA and China and, not least, in Sweden.

One cause of this development is over-investment in the industrial sector. This partially relates to the major real-estate and infrastructure projects carried out in China, funded by large state subsidies, fuelling a sharp rise in demand for everything from mining equipment to steel and cement. At a time when the Chinese economy is progressively shifting towards the service sector, other sectors in different parts of the world are struggling with surplus capacity – and it is far from clear that demand for earlier volumes will return, which hinders industrial growth.

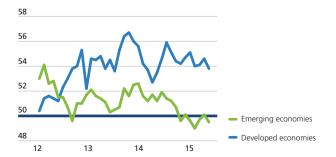
Inflation remains low

A lack of inflationary pressure was a further defining factor in 2015. An important cause of these low levels of inflation derives from a halving of the price of crude, which started in autumn 2014. The main reason for the decline in price relates to the trend already noted above. Low demand in the industrial sector has led to a relatively significant fall in the price of raw materials. A surplus of oil has further depressed the price of crude. Responding to these low levels of inflation, many central banks, including the ECB and Riksbanken, have been able to cut their key lending rates.

Several economic trends sustained in 2016

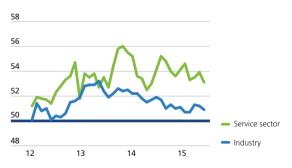
The economic trends current in 2015 will be sustained in 2016. When considering risks and opportunities, potential surprises concerning negative growth are most likely to arise in the emerging economies. Europe probably offers the best possibilities in terms of positive surprises, where a weak euro and low oil price offer the prospect of continuing favourable economic growth. Furthermore, it seems as if credit growth is on the up again, after years of constraints. This will favour the European economy and, for example, will enable investments to grow in a way that has not been possible since before the financial crisis. In the wake of solid growth in the USA, the Federal Reserve was the first of the major economies' central banks to raise the key lending rate. Continuing cautious rate hikes are likely, to avoid the risk of slowing a recovery. One of the most difficult things to predict will be whether inflation will continue to remain as low as it has been. There are indications this will not be the case but. so far, inflation has provided plenty of downward surprises for many years in succession.

Purchasing Managers Index (PMI)



Source: Markit Economics

Global Purchasing Managers Index (GPMI)



Source: JP Morgan & Markit Economics

STRATEGY

Long-term investment strategy

The AP funds' portfolio management activities have made a positive contribution to the national pension system. Since its inauguration, the Second AP Fund's chosen management strategy has generated SEK 175 billion. During 2015, the Fund implemented some changes to the strategic portfolio with a view to increasing risk-adjusted return. The Fund has increased the allocation to non-listed assets, as well as changing the benchmark index for emerging-market equities and strategic exposure in foreign-exchange (FX).

To contribute to maintaining or improving the balance in the pension system, the Fund's return must be at least higher than the income index which, since the buffer funds were established, has increased at an average annual rate of 3.0 percent. During the same period, the Fund's portfolio has generated an annual return on investment of 5.6 percent. Over time, the Second AP Fund believes that around 90 percent of the return on invested assets will derive from the composition of the strategic portfolio, the remaining 10 percent from active management. In 2015, however, the active return accounted for a fifth of the total return.



The Fund implemented some changes to the strategic portfolio with a view to increasing riskadjusted return.

ALM model developed in-house

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 long-term prospects on the financial markets. The work with the ALM model is designed to create a portfolio that will minimize the impact of the automatic balancing mechanism on future pensions. One of the fundamental demands made of the ALM model is that it should embrace both the overall development of the pension system and the factors affecting the return on the buffer funds' capital assets. The model's analytical horizon is 30-35 years.

The ALM model comprises three interlinked components:

- Scenario simulation: This component simulates various growth trajectories, including trajectories for the asset classes in the Fund's portfolio, for Swedish inflation, for the capacity utilization rate and for salaries. Greatly simplified, the model consists of one part that describes the average anticipated growth of these variables and another part that describes numerous possible variations from this average. The ALM model is under continuous development.
- Calculation of the pension system's balance sheets and income statements: This component calculates the key ratios that are critical to pension system growth. Demographic scenarios are also factored into the equation.
- Optimization component: This component identifies the portfolio that best meets the overall objective. This is based on the other components of the ALM model. The model's most important key ratio is the balance ratio (the ratio between assets and pension liabilities). The balance ratio affects the degree to which pensions can be upwardly adjusted. If the balance ratio is less than one, i.e. if the system's assets are less than its liabilities, the brake is applied and pensions are upwardly adjusted at a lower rate than would otherwise have been the case. The higher the return generated on the AP funds' portfolios, the smaller the risk that the automatic balancing system will be activated.

Controlled risk

An important factor governing the composition of the strategic portfolio is the fact that the AP funds jointly account for approximately 14 percent of the national pension system's combined assets. The largest part (86 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 degree of controlled risk is necessary to be able to meet the targeted return. This is why the Second AP Fund has invested in

for example equities and credit bonds, which offer potentially higher returns although incurring a higher risk compared to securities such as government bonds.

Long-term diversification of investment strategy

The Fund's long-term investment strategy and strategic portfolio has been subject to constant development from the start. A cornerstone of this process is to increase the spread of risk without compromising the potential future return. In 2007, the Fund intensified its efforts to achieve the long-term diversification of its investment strategy and, among other things, reduce its concentration on traditional equity markets, by introducing asset classes and strategies that fall outside traditional investment sectors. This change of course in investment strategy is long term and has taken several years to develop.

Changes in the strategic portfolio

In 2015, the Fund's Board of Directors reached several decisions concerning the strategic portfolio and its currency hedging strategy.

Increased allocation to non-listed assets

As a consequence of the increased volume of investment, the Fund's strategic allocation to certain non-listed assets was expanded during the year. Increased investment in private equity funds led to a five-percent increase in their strategic weighting, which meant that the Fund reached the highest permitted weighting for such investments. The continued build-up of the Fund's portfolios of non-listed real estate increased the weighting of these investments to ten percent. Both foreign traditional real estate (three percent) and forest-and-agricultural assets (two percent) increased their shares of the strategic portfolio.

Changed benchmark index for equities on emerging markets
Over a period of many years, the Second AP Fund has gradually
shifted the emphasis of its strategic allocation in equities to
accommodate a number of systemic factors, which in the long
term are expected to increase the absolute and risk-adjusted
return on its portfolios of equities. During the year, a strategic
shift was made towards investment in 'value equities' for emerging markets too. The Fund's allocation to equities on emerging
markets accounts for 11 percent of the total portfolio, approximately half (five percent) of which are rated according to an index
based on an equity's value rather than its capital weighting.

Adjusted strategic exposure in FX

During the year, the Fund increased its strategic exposure in FX in its portfolios of foreign equities. This exposure has increased to a varying extent depending on the currency in question, and is based on the risk pattern observed. The main reason for reducing the FX hedging level in the Fund's portfolios in recent years has been the Swedish krona's tendency to weaken during periods of financial-market turbulence. Almost 30 percent of the Fund's total assets are exposed in foreign exchange.

Choice of index

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. The choice of benchmark index is therefore integral to the portfolio management process and the strategic portfolio.

Since 2003, the Second AP Fund has chosen to use a variety of specialized indices that differ from the traditional cap-weighted indices. This is because a cap-weighted portfolio tends to award a higher weighting to those individual equities with the highest valuation, sometimes reflecting the fact that the share may be overvalued, and vice versa.

For this reason, the Fund therefore bases the composition of its portfolio partly on other weighting methods. Examples of such methods include the equal weighting of Swedish companies in various size categories, GDP weighting of markets and weighting based on fundamental corporate factors (such as sales, dividend and profits) in the foreign equities portfolio and the selection of indices based on low risk. This is expected to lead to less portfolio concentration and a higher risk-adjusted return over time.

Active management

Active management is based on the assumption that market inefficiencies exist and that there are a number of assets that is wrongly priced. By identifying these and utilizing the Fund's resilience, active portfolio managers can increase the return compared with portfolio management that is entirely index driven. For this reason, the Second AP Fund employs active elements in its portfolio management. This active management is employed both in-house and via external mandates.

In 2015, actively managed portfolios generated one percent in excess return, equivalent to SEK 2.2 billion.

In-house portfolio management

The Second AP Fund has several asset classes under in-house management, concentrating resources on areas that it believes offer the greatest chance of success, based on the market, the available experience, the competence and the processes. Of the Fund's assets 83 percent are managed in-house.

The following asset classes are managed in-house:

- Swedish equities
- Foreign equities on developed markets
- Foreign equities on emerging markets
- Emerging-market bonds
- Swedish bonds
- Foreign government and credit bonds on developed markets
- Tactical asset allocation
- Real estate (via directly-owned companies)
- Parts of the portfolio of alternative risk premiums.

The active management of Swedish equities during 2015 was conducted under three mandates. The larger mandate is aimed at a broad share index, the middle mandate at an equal-weighted index and the smaller at small caps. Swedish and foreign fixed-income securities are also actively managed in-house, together with emerging-market bonds. Foreign equities, global credit

bonds and Swedish fixed-income securities are quantitatively managed too, involving the use of mathematical models to locate market inefficiencies.

External portfolio management

The majority of the Second AP Fund's external mandates are active and are expected to generate an active return and contribute to the diversification of the portfolio. The Fund employs external asset managers for asset classes and markets that offer good yield potential, as well as for asset classes and mandates where the necessary in-house resources are lacking.

During 2015, the Second AP Fund employed external managers for the following areas:

- Global equities
- Government bond funds on emerging markets
- Global tactical allocation mandates
- Alternative investments (private equity funds, real-estate funds, Chinese Series A equities, alternative credits and parts of the portfolio of alternative risk premiums).

The procurement of external fund managers is based on criteria such as investment style, quality and analytical approach, organizational structure, staffing, ESG, costs and historical performance.

Benchmark index for the	strategic portfolio, December 31 2015	Index				
Equities	Sweden	SBX: Stockholm Stock Exchange Benchmark Index SEW: 'Equal Weighted Sweden Index' CSRX: 'Carnegie Small Cap Return Index'				
	Foreign equities	MSCI World GDP Weighted ¹ , MSCI World ¹ , MSCI World Minimum Volatility Weighted ¹ , MSCI World Value Weighted ¹ MSCI World Risk Weighted ¹				
	Emerging markets	MSCI Emerging Markets ¹ , MSCI Emerging Market Value Weighted ¹				
Fixed-income assets	Swedish nominal fixed-income	SHB Swedish All Bond ⁴				
	Global government bonds	Barclays Global Government ²				
	Global credit bonds	Barclays Global Credit ⁵				
	Government bonds in emerging markets	JP Morgan EMBIGD, JP Morgan GBI-EM Global Div ³				
Alternative investments	Swedish real estate	SFIX Svenskt Fastighetsindex				
	Foreign real estate	7 percent				
	Timberland and farmland	8 percent				
	Private equity	MSCI, World Local currency + 3 percent				
	Alternative credits	Barclays Global Government ² + 4 percent				
	Alternative risk premiums	MSCI, World Local currency				
	Chinese Series A equities	MSCI, China A ¹				
Alternative investments	Swedish real estate Foreign real estate Timberland and farmland Private equity Alternative credits Alternative risk premiums	SFIX Svenskt Fastighetsindex 7 percent 8 percent MSCI, World Local currency + 3 percent Barclays Global Government ² + 4 percent MSCI, World Local currency				

¹ Adjusted index: adjusted after excluded companies and tax levels.

² Adjusted index: excluding Japan and emerging countries as per MSCI.

³ Adjusted index: weighting of individual countries may not exceed 15 percent and they may not have a credit rating lower than BBB.

⁴ Adjusted index: excluding bonds with a maturity of more than 20 years, and Kommuninvest.

⁵ Adjusted index: excluding Japan and emerging countries as per MSCI, as well as markets where issued volume is less than USD 500 million.

SWEDISH EQUITIES

Excess return in eight of ten years

Swedish equities have long proved an excellent asset class in general, and for the Second AP Fund in particular. In 2015, the Fund's holdings in this asset class generated a relative return of 5.9 percent. Key factors in this success are the Fund's investment process and its staff.

The Second AP Fund's holdings in Swedish equities consist of a small-cap portfolio and two large-cap portfolios, which jointly comprise 9.6 percent of the Fund's total capital. This asset class has been good news for Sweden's pension savers, given the fact that the Swedish stock market has on average outperformed the global market.



This asset class has been good news for Sweden's pension savers.

Top Swedish performer

The Second AP Fund's holdings in Swedish equities have developed better than the benchmark index. In 2015, this asset class posted a return of 15.2 percent, and outperformed benchmark with 5.9 percent.

"Our holdings in Swedish equities have generated a positive relative return in eight of the past ten years. To my knowledge, our small-cap portfolio, if not the very best, has definitely been one of the best of its class in Sweden in recent years," states Jonas Eixmann, Head of Equities at the Second AP Fund.

In-house keys to success

The main factors contributing to this good result are the excellent teamwork shown by the equities team at the Second AP Fund, in combination with the implementation of a clearly defined investment process. This investment process is based on a fundamental analysis, which involves intense study of the companies in which the Fund invests. A methodical and thorough analysis and exhaustive evaluation process is used to identify companies with future development potential – potential deemed not to have been considered in the current market valuation.

The investment process has remained unchanged for a number of years, ensuring continuity and a sensitivity to the work. The long-term perspective and faith in the process contributes to the self-confidence required to stand firm on investment decisions,

even when these may fail to generate the anticipated positive results in the short term. The fact that the team managing the Fund's investments in Swedish equities has remained the same for a long time has further contributed to its strong performance.

"The solid performance we've achieved over quite some time is partly the result of an investment process we believe in and implement, partly the result of good teamwork. Every member of the group is encouraged to contribute ideas and participate in investment decisions. The best argument wins, whoever it comes from," explains Jonas Eixmann.

Impact of the wider world

By sticking to its agreed investment process, the Second AP Fund was able to manage the various external factors that impacted the Swedish stock market in 2015, such as the weakening of the krona, developments in China, regulation issues and the low interest rate affecting the banking sector, so critical to market performance. The Fund succeeded in generating a solid return on assets over the past year, both on bull and bear markets.

The big question in 2016 is how the global economy may develop. The economic performance of the USA, Europe and China, not to mention the global geopolitical situation, could dramatically affect stock markets and individual companies. The Swedish krona's future exchange rate is another important factor, since it will have a direct impact on Swedish corporate profits.

"It is difficult to foresee what specifics will characterize 2016, and we are cautious in claiming an ability to predict the future. A number of factors in the world around us can lead to rapidly changing options and the challenge is to remain alert. We shall continue to keep our ear to the ground, as we have done during the past year," says Jonas Eixmann.

Investment in structural growth

The Second AP Fund will continue to place importance on identifying and analyzing industries with the potential for structural growth, ideally small and medium-sized companies that attract less market attention than large companies. Common to the types of investment the Fund seeks is that they should be companies that to a high degree determine their own development and are not sensitive to economic cycles.

TRADITIONAL REAL ESTATE

Another strong year for real estate

The Second AP Fund's investments in traditional real estate enjoyed yet another successful year in 2015, generating a return of 19.6 percent. This asset class has been one of the portfolio's top performers ever since the Fund's launch in 2001, having contributed a total of SEK 20.8 billion to Sweden's national pension system.

The Second AP Fund's portfolio of traditional real estate consists of the four joint-owned real-estate companies Vasakronan, Norrporten, Cityhold Office Partnership and US Office Holdings, complemented by two smaller investments in the real-estate funds Gaw Gateway Fund IV and Hines Poland Sustainability and Income Fund. All these investments focus on high-quality traditional real estate, centrally located in real-estate markets with good liquidity.

Good diversification

As well as generating a good long-term return, the Second AP Fund's investments in traditional real estate help spread risk. Investments in real estate – at least in the short term – have a fairly low correlation to equities, promoting good diversification.

Since 2011, the Swedish share of the Fund's total investments in real estate has declined from 95 percent to approximately 60 percent, a consequence of new investments made mainly in Europe and the USA. This forms part of the Second AP Fund's broader strategy for greater diversification, both in terms of the real-estate portfolio and Fund capital as a whole. In a real estate portfolio, geographic diversification really pays, since correlation between the various real-estate markets is relatively limited.

Still generating a solid return

The Second AP Fund's investments in real estate generated a return of 19.6 percent (including FX hedge) in 2015, or SEK 4.8 billion. Since the portfolio was established in 2001, the Fund's real-estate investments have generated an average return of 12.3 percent a year, totalling SEK 20.8 billion.

"2015 proved yet another good year for real estate. The market was marked by continuing buoyant demand, both for real estate and commercial premises, which meant fewer vacancies, increased rental levels and higher property prices. Our realestate holdings were no exception, continuing to generate an excellent return on Sweden's pension assets in 2015," notes Helena Olin, Head of Real Assets at the Second AP Fund.

For the Fund, this meant the market worth of the real-estate portfolio had risen to SEK 29.7 billion by year-end 2015, equivalent to 9.9 percent of total Fund capital.

Real-estate markets enjoy robust growth

Growing interest in investment in real estate has pressed prices up on most markets. The demand is greatest in high-growth cities such as London, San Francisco, New York and Stockholm, clearly reflected by the rising market value of the Second AP Fund's real-estate portfolio. Sweden definitely qualified as one of the better property markets during the year, attracting increased interest from international players.

In the USA, US Office Holdings expanded its real-estate portfolio with four new properties to a value of SEK 12.6 billion. During 2015, the company also invested in a property development project on Manhattan.

The Fund's European real-estate company Cityhold, a joint venture with the First AP Fund, was merged in 2015 with US pension fund TIAA CREF's European portfolio of office properties. The Fund has thereby successfully strengthened and diversified its European portfolio of real estate. In the form of holding company TH Real Estate, Cityhold has gained a partner possessing considerable expertise, especially with regard to local markets. Overall, this means that the Fund now has a significantly improved platform for continued real-estate investments in Europe.

Identifying future investments

Property markets the world over are being influenced by the ease with which large amounts of capital can be raised, and currently low levels of interest make real estate an attractive asset class. This has led to fierce competition on the real-estate market and, as demand has increased, targeted returns have continued to decline. Generally speaking, this makes it increasingly difficult to identify real estate that can generate the long-term return the Fund seeks.

The Fund manages these challenges by implementing a strategy of investment in real estate that focuses on prime locations in areas of urban growth where demand is expected to be sustained over the long term – and where such demand has yet to be reflected in property prices. This strategy provides scope for investment in property with somewhat higher vacancy levels, as well as real estate that is deemed to offer development potential, as when associated with future infrastructure projects.

These investments are identified together with the companies and asset managers to which the Fund has access via its current holdings.

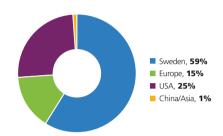
"We have good companies with highly competent management and skilled leasing and project teams, providing excellent prospects of identifying solid real-estate investments even in the years ahead. We also benefit from the fact that we are not pressured to purchase real estate but can afford to be more selective and bide our time until the right opportunity arises," explains Helena Olin.

Fund investment in emerging markets

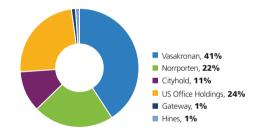
In 2016, attention will focus on projects in Sweden, on Manhattan and in the European portfolio, as well as elsewhere. The Fund will also continue to evaluate new investment opportunities on emerging markets and in real estate with development potential, both in Europe and the USA.

The Second AP Fund's investments in emerging markets promote greater diversification, but involve certain implementation risks, such as poorer transparency, political risks and less mature markets that are subject to higher volatility. These risks are managed by ensuring that the investments are first and foremost implemented in collaboration with other players within the framework of the Fund's two real-estate funds, Gaw Gateway Fund IV and Hines Poland Sustainability and Income Fund. In this way, the Second AP Fund is assured of a presence and a better understanding of these emerging markets, creating the potential for still larger investments in future.

Share of real-estate portfolio, geographic markets

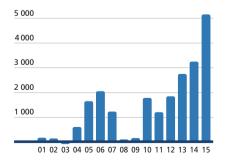


Share of real-estate portfolio, investments



Portfolio growth, real-estate

Annual result from Fund's holdings in traditional realestate companies since start (excl. FX hedge), SEK m



EMERGING MARKETS

Global investments that help spread risk

The Second AP Fund's investments in equities and bonds on emerging markets comprise around 17.6 percent of the Fund's total holdings. This asset class contributes to a more diversified portfolio as well as higher anticipated return.

A basic principle applied to financial markets is that returns can only be generated by accepting risk. For the majority of players on financial markets, it is nevertheless important to ensure that this risk is not too concentrated. This is why the spread of risk forms a key element in managing the Second AP Fund's portfolio, being partially achieved by investment in a broad range of financial markets the world over.



This asset class contributes to a more diversified portfolio as well as higher anticipated return.

Through investment in emerging markets, the Second AP Fund secures a more diversified portfolio. This derives from the fact that growth on emerging markets differs from the way developed markets grow. By also investing in emerging markets, the Fund is therefore able to build a portfolio that features a good mix and spread.

"A key reason we invest in emerging markets is a determination to be exposed to the entire global economy, since this ensures good diversification. Looking at the long term, we are convinced that exposure both to emerging and developed markets is a good thing," explains Hans Fahlin, CIO at the Second AP Fund.

Ongoing internalization process

In 2015 the Second AP Fund made major strides forward in the internalization process of its portfolio, a process initiated in 2012. It included the reversion from external mandates to in-house management of all emerging-market bonds and global credit bonds. This offers a number of benefits, in the form of

lower operating costs, increased transparency and control of the portfolio, while also enhancing in-house competence.

"We now manage our entire bond holdings in-house as well as virtually all the equities we hold on emerging markets. We have made it a priority to develop considerable competence in these markets, which are gaining increasing significance and which will become ever more important in the years ahead," explains Kristian Hartelius, Head of Emerging Markets at the Second AP Fund.

In 2016, the Second AP Fund will develop an active strategy for the development of a management model for bonds in local currencies, with a view to generating a better return than index. This will involve a quantitative approach, based on predicted bond rates, which will later form the basis for future investment decisions.

A challenging year across several markets

During 2015, several of the emerging markets – especially primary sector markets – confronted a number of problems. For example, sharply falling crude prices placed the Russian economy under severe strain, as its export revenues declined. The prices of other raw materials, such as copper, iron and steel, also fell during the year.

The challenges faced by several of these emerging markets were also linked to the reform process in China, which is engaged in transforming its economy to a more consumer-and-service-based system. The subsequent slowdown in the rate of growth made itself felt in the form of a decline in demand for raw materials, affecting markets dependent on the export of raw materials to China.

At the start of the year, the Second AP Fund continued to gradually increase its exposure to domestic Chinese equities, a process initiated in 2013, with a view to meeting its target of placing one percent of the portfolio in this asset class. So far, this investment has generated a positive return, and the Fund believes this positive trend will continue in future, as the necessary process of reform is implemented in China.

The Indian economy enjoyed more favourable development in 2015, benefiting from the falling price of raw materials and reduced inflation. In contrast, Brazil found itself struggling with political problems, as well as challenges deriving from the overheating of the economy in previous years. Nevertheless, if Brazil implements the necessary economic reforms, there is a real prospect that the country's well diversified economy could develop favourably in coming years.

Result on emerging markets

The return generated on Chinese Series A equities, an investment that received additional capital at the start of the year, has proved highly beneficial for the Fund. Conversely, other emerging-market equities have underperformed, and their relatively high weighting in the portfolio has therefore had a negative impact on the net result. Emerging-market bonds, which generated a strong return in 2014, moved in the opposite direction in 2015, if to a lesser extent.

Good prospects looking ahead

Developments during 2015 showed that China has become a much larger and more integrated part of the global economy than was the case just a few years ago. This means that events in China impact on other countries' financial markets. The Second AP Fund deems that countries that prove capable of managing the change process in China and that are able to adapt their economies accordingly will end up as winners.

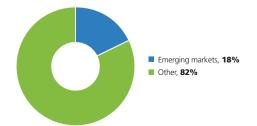


Investments in emerging markets contribute both to a solid return for Sweden's pension savers and to global economic growth.

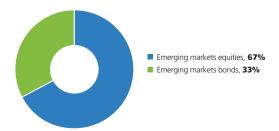
For a player on the financial market, an understanding of developments in China is of critical importance. The Second AP Fund has been investing in China since 2013 and has built up good relations with local asset managers and other players. By remaining in constant touch with political and economic developments in the country, and by conducting activities in concert with a range of different experts, the Fund has been able to build up a comprehensive pool of in-house expertise on China.

Through its investment in emerging markets, the Second AP Fund is contributing to these countries' development, furnishing the capital essential to the growth of their economies. In this way, the Fund's investments in emerging markets can contribute both to a solid return for Sweden's pension savers and to global economic growth, to the benefit of people in these countries.

Share of AP2's total holdings, emerging markets, %



Share of emerging markets portfolio, equities and bonds, %





ATTRACTIVE EMPLOYER

Staff who create value

The Second AP Fund's ability to recruit new staff, retain them and contribute to their development is essential in achieving its long-term objective. Part of the Fund's long-term strategy is to use its own resources to build up still more professional and cost-efficient portfolio management.

The Second AP Fund is an archetypal knowledge-driven organization, where the specialist competencies, creativity and commitment of its staff are critical to a successful result. As a manager of buffer capital, the Fund is tasked with an important mission. This places considerable demands on the Fund's good judgement in its day-to-day operations, and the need for transparency in carrying out its duties. These issues are often the subject of internal discussion within the Second AP Fund. The Fund subscribes to a joint code of values and has clearly established internal policies that govern its professional behaviour.

Culture and values

The Second AP Fund is an employer with motivated and committed staff. The Fund's culture is notable for encouraging personal responsibility and individuality within the broader framework of a strong team spirit. Ethical behaviour is an important element of this culture and forms a natural part of the Fund's values system.

During the year, the Fund has continued the process of building a robust culture and strengthening its joint values. The values on which this culture is built are the creation of long-term value, responsibility, respect and consistent improvement. This process is intended to clarify and promote consensus around the Fund's values and to establish the principle that these values should provide guidance in the Fund's day-to-day operations.

Ongoing internalization

Part of the Fund's long-term strategy is the steady build-up of still more professional and cost-efficient portfolio management, relying on its own in-house resources. The process of internalizing the Fund's portfolio management activities has continued within the parameters of this broader strategic framework throughout the year. Of the Fund's capital assets 83 percent are managed in-house, involving a growing number of asset classes and strategies, placing considerable demands on its competence in different investment sectors, as well as on its business services and risk and performance analysis.

Exchanging competence

All members of staff are offered ongoing skills development within their individual fields of competence. During the year, the in-house training of staff on sustainability issues has continued, with a view to increasing everyone's competence in this area. The Fund also organized an in-house 'Climate Day', in conjunction with the climate conference in Paris in December.

The Second AP Fund places great importance on collaboration with other investors, internationally as well as in Sweden. During the year, the Fund has engaged in exchanging competencies with a number of different investors, primarily members of the Fund's business network. This includes collaboration with the New Zealand Superannuation Fund, Generation Investment Management, ABN Amro Pension Fund, Publica Pension Fund and TIAA-CREF.

Leadership training

Strong leadership is a key competitive tool in promoting the development and motivation of members of staff. The Second AP Fund's leadership strategy defines the skills, attitudes and responsibilities that managers within the organization are expected to possess. The leadership strategy is regularly assessed, providing the basis for the drafting of an individual development plan for each manager.

Health and diversity

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. Each employee's health is also monitored in conjunction with the annual employee appraisal. The Second AP Fund supports activities that help inspire and stimulate a healthier lifestyle.

The Fund considers it important that its workforce should reflect diversity in terms of background, experience, age and gender. It enables men and women to combine work with family responsibilities by offering flexible working hours and working under one's own responsibility. In 2015, five men took parental leave at some point during the year.

Collaboration with Mitt Liv

In 2015, as part of its diversity programme, the Fund decided to join the Mitt Liv (My Life) organization. Mitt Liv is dedicated to increasing diversity and integration on the Swedish labour market. Each year, through the organization's mentoring programme, five Fund employees gain the chance to become mentors, to assist academics with a foreign background who lack employment appropriate to their professional competence.

Remuneration

To be able to recruit and retain the right staff, the Second AP Fund strives to remunerate its employees at a level that is motivating and consistent with the industry at large.

Board's area of responsibility

The Board of Directors of the Second AP Fund determines the guidelines for remuneration to senior executives. These guidelines are reviewed annually by the Board and shall be compatible with Swedish Government guidelines pertaining to terms of employment as applied at the AP funds. These guidelines address the actual decision-making process as well as the construction and appraisal of appropriate and reasonable remuneration within the Fund. The Board ensures that the remuneration paid to the Chief Executive and other senior executives is consistent with the Board's guidelines.

Guidelines for remuneration

The total remuneration paid to senior executives should be reasonable and well balanced. It should also be competitive and appropriate, featuring clearly defined upper limits and contributing to solid business ethics and a healthy organizational culture. These levels of remuneration are not salary-inflationary in relation to comparable institutions, but are moderate in character. The remuneration shall comprise a fixed basic salary, performance-based variable remuneration (not applicable to the Fund's executive management), pension and benefits.

The Board's follow-up

For more than a decade, the Second AP Fund has participated in the annual salary and benefits survey conducted by Towers Watson, a firm of independent analysts. This annual survey generates comparative statistics for individual positions held at relevant and comparable organizations in the financial industry. The purpose of this survey is to report on the market rate for salaries and benefits paid to different staff categories, based on data supplied by the participating companies. The Second AP Fund has used this statistical data to compare remuneration levels for all its employees. In 2015, the levels of remuneration provided by the Fund were compared with some 15 other private and state players in the financial sector, including Swedish pension



The Fund's cultural values are bulit on the creation of long-term value, responsibility, respect and consistent improvement.

fund AMF, other AP funds and Kammarkollegiet (Swedish Legal, Financial and Administrative Services Agency).

The Fund's remuneration policy is based on the idea that the level of remuneration should be close to the median for the reference group employed in the Towers Watson salary and benefits survey. The Board considers that the levels of remuneration paid to senior executives, as well as to other members of the Fund's staff, are reasonable, well balanced, competitive and appropriate, featuring clearly defined upper limits and contributing to solid business ethics and a healthy organizational culture.

These levels of remuneration are not salary-inflationary in relation to comparable institutions, but are moderate in character and fall well within the parameters prescribed by the Board concerning staff remuneration. The Board is satisfied that the Fund is in compliance with Swedish Government guidelines on remuneration, apart from the period of notice. Nevertheless, the combined costs incurred in connection with a dismissal are well within the limits defined in the Swedish Government guidelines. More information on at www.ap2.se

Performance-based variable remuneration

The Board of Directors approves a programme for variable remuneration in line with the Swedish Government's guidelines. The Second AP Fund's incentive programme comprises all staff apart from the CEO and other members of the Executive Management Group.

This incentive programme means that all other members of staff are entitled to a maximum of two months' salary in variable remuneration. The programme is linked to long-term goals calculated over three and five years. This variable remuneration may only be paid out when the Fund reports a positive total return.

All employees come under the terms of the collective agreement between The Employers' Organization of the Swedish Banking Institutions (BAO) and The Swedish Confederation of Professional Associations, JUSEK/CR/CF (SACO).

Recruiting talent

As a global fund manager operating across a broad range of asset classes, the Second AP Fund fosters many specialist roles and creates many career opportunities. 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, and Chalmers Institute of Technology, enabling them to offer students opportunities of temporary employment on specific projects, trainee positions and temporary employment during summer vacations. This has created a solid recruitment base for future employees. Twelve of the Fund's current members of staff have come direct from studies at the School of Business or Chalmers.

Collaboration with the academic world

For the Second AP Fund, active participation in the latest research in the financial sector is a self-evident necessity. As well as carrying out their own research, Fund employees also attend conferences at which research results are presented. More about the research in which Fund employees are participating at www.ap2.se

For some years now, the Second AP Fund's CIO (Chief Investment Officer), Hans Fahlin, has chaired Inquire Europe. This is a cooperative, non-profit professional organization which was formed in Europe in 1990. It was established to bring together leading academic re-searchers and investment professionals interested in understanding and developing quantitative solutions to financial and investment problems.

The Fund's CIS (Chief Investment Strategist), Tomas Franzén, chairs the international EDHEC-Risk Institute, a research council that forms part of the world's leading centres for risk research in the field of financial management. An active interchange of expertise and ideas with the financial industry is essential in ensuring that researchers are able to conduct relevant research.

Eva Halvarsson is Vice Chair of the board of Gothenburg University, as well as a member of the advisory board of the School of Business, Economics and Law at the University of Gothenburg.



All bonus-eligible employees received variable remuneration in 2015. More about the programme at **www.ap2.se**

Staff statistics

	2015	2014
No. of permanent staff	64	63
Female staff, %	34	38
Female staff in executive management, %	29	29
Average age, years	44	43
Median age, years	44	44
Personnel turnover, %	4.7	1.7
Absence due to illness, %	2.09	1.08



Integrating sustainability into asset management

The Second AP Fund's sustainability programme comprises the environment, ethics and corporate governance. The purpose for the Fund's sustainability work is to create and protect values. As an asset manager, the Fund is determined to address a range of factors involving the environment, ethics and corporate governance, as they provide a better basis for analysis and investment decisions. The Fund is also committed to maintaining a high level of confidence by promoting a solid ethical and environmental approach, while also contributing to the development of sound practice in fund management issues.

By actively addressing and integrating environmental, ethical and corporate governance issues in its asset management, the Second AP Fund can generate value. The term that the Fund uses to embrace these issues is sustainability. Investors also use the acronym ESG (Environmental, Social and Governance).

The Fund believes sustainability to be important, convinced that a commitment to sustainability issues can generate and protect value. Integrating sustainability factors into analyses and investment processes generates broader and better decision data.

The Second AP Fund's framework

The Second AP Fund is a state agency whose operations are governed by the National Pension Insurance Funds (AP Funds) Act (2000:192). One of the AP Funds' key tasks is to maximize return while maintaining a low level of risk. The investment strategy shall accommodate the impact of pension disbursements while addressing the level of reserves that will be required to service these outflows. The AP Funds shall take ethical and environmental concerns into account, but without hampering the overall aim of an enhanced return on investment. Business and economic policy considerations are to be ignored.

Corporate governance policy

The Second AP Fund's operational approach to sustainability and corporate governance issues is based on the Fund's governance policy and its ten investor principles. These principles comprise structural matters, corporate governance, the environment – and ethics. The governance policy also defines the Fund's core values, and details the guidelines and initiatives to which the Fund is a signatory, or which it employs in pursuing its sustainability aims. This governance policy is determined annually by the Board of Directors and is published on the Fund's website at www.ap2.se

The Second AP Fund's engagement in corporate holdings is founded on regulations and guidelines such as the OECD's Guidelines for Multinational Enterprises and Principles of Corporate Governance, the UN's Global Compact, the Swedish Companies Act and the Swedish Code for Corporate Governance.

The governance policy also describes the principles to which the Second AP Fund subscribes and that it is employed as a framework in its efforts to promote sustainability, both within its portfolio management organization and in a range of governance activities. The Second AP Fund supports and actively promotes implementation of the UN-backed Principles for Responsible Investment (PRI). It signed up to these Principles as early as 2006, when they were first established. PRI provides various instruments and activities to support investors in implementing the Principles and to facilitate cooperation between investors.

The Second AP Fund has also undertaken to implement the Principles for Responsible Investment in Farmland. These were drawn up by the Second AP Fund in association with a group of international investors, all of which are PRI signatories. PRI has had administrative responsibility for the Principles since 2014, and they are included in the 2015 PRI reporting.

The Principles provide institutional investors who invest in agricultural assets with a framework for dealing with environmental, ethical and governance issues. They are also intended to increase transparency in connection with such investments. Read more in the Second AP Fund's Sustainability and Corporate Governance Report for 2014/2015, www.ap2.se

Organization 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 backed by an ownership group featuring members of the Fund's



The Fund's overall objective is that sustainability must form an integral part of all analysis. an integral part of all analytical and decision processes. This work has been ongoing in a structured form for several years.

executive management, the head of Swedish equities and the sustainability analyst. This group is responsible for the strategic and operational aspects of the Fund's corporate governance activities.

The Fund's sustainability programme (ethics and environment) is operated by a sustainability group that consists of the Fund's CIO, sustainability analysts and the Head of Communications & HR. This group is tasked with strategic implementation of the Fund's sustainability programme. Operationally, sustainability issues are primarily addressed within the Fund's portfolio management organization.

The ownership and sustainability groups target and draft action plans and monitor progress on an ongoing basis. Both governance and sustainability groups report to the Fund's executive management and the results of their work, on an ongoing basis, are firmly established among the rest of the staff. At every board meeting, a report on the Fund's sustainability and governance activities is submitted to the Board of Directors.

Environmental and ethical core values

When it comes to the environmental and ethical aspects of business activities, the Second AP Fund's core values are based on principles that highlight

- commitment
- action
- change

with a view to making a difference. The Fund strives to make a difference by working proactively for sustainable development in areas that promote a high long-term return on investment, while at the same time becoming actively involved in companies where problems have been identified, been deemed as significant and are well substantiated. The Fund believes this to be a responsible and ethical approach.

Part of the Swedish State's core values

As part of the Swedish national pension system, the Second AP Fund's principles of commitment, action and change are based on the same core values as those espoused by the Swedish State. Democracy, the belief that all men and women are equal, the individual's right to freedom and respect and the importance of sustainable development are all in compliance with the terms of the Swedish Constitution Act.

Conventions Sweden has signed

The core values of the Swedish State are also given expression through the international conventions to which Sweden has been a signatory, including conventions concerning the environment, human rights, labour rights, corruption and inhuman weapons. These values are further reflected in the support Sweden provides to initiatives such as the UN's Global Compact and the OECD's Guidelines for Multinational Enterprises, as well as Sweden's stated position on human rights issues. In conjunction with the core values espoused by the Swedish State, these international conventions provide the Fund with powerful instruments in its focus on environmental and ethical considerations.

In its work, the Second AP Fund operates on the assumption that all conventions to which Sweden is a signatory shall be observed and afforded equal importance. This position is also supported by the decisions made and statements issued by various UN agencies, which note that human rights are universal, indivisible, mutually dependent and interrelated and may not be assigned different orders of importance. The Fund believes that the companies must themselves be responsible for ensuring that international conventions are not contravened, irrespective of whether these are directed at sovereign states, individuals, companies or organizations. Furthermore, this responsibility shall apply even when countries in which the companies operate are signatories to conventions or feature less stringent legislation.

Sustainability integral to portfolio strategy

The Fund's overall objective is that sustainability must form an integral part of all analytical and decision processes. This work has been ongoing in a structured form for several years. The Second AP Fund is responsible both for the management and governance of the capital with which it has been entrusted, and is actively engaged in environmental, ethical and corporate governance aspects from both perspectives. By exerting pressure about addressing ethical and environmental issues, the Second AP Fund can help its portfolio companies to identify opportunities and risks within these areas at an early date, which will impact the return on investment.

The Second AP Fund believes that a responsible long-term approach to the environment, ethics and corporate governance enhances the market worth of companies. Integrating the economic analysis with those of the environment, ethics and corporate governance provides a firmer basis for investment decisions. For a detailed description of how the Fund makes sustainability issues integral to its portfolio management approach,

see the Sustainability and Corporate Governance Report 2014/2015, at www.ap2.se

Focus areas

During the year, the Fund has decided that its sustainability activities should focus primarily on a few focus areas that are considered essential to achieving a better long-term return. The idea to focus the Fund's resources on a number of areas is to achieve results in areas of financial relevance.

The Fund's broad priority is:

The integration of sustainability as part of the asset management process.

The Fund's specific focus areas are:

- Climate
- Corporate governance
- Diversity
- Transparency/reporting procedures.

The Fund possesses extensive expertise and experience in these selected focus areas, having been engaged in these issues for a considerable period. It expects to focus on these areas for a long time to come.

The work carried out in these focus areas, will target companies in which the Fund has invested most heavily and/or those in which it controls a substantial interest and in sectors deemed to pose considerable risks in terms of financial sustainability. This policy derives from the recognition that the work must focus on those areas and companies of key financial importance to the Fund. This work may be conducted in collaboration with other investors, with a view to securing improvements within a particular sector and/or within an individual company. The process of addressing the selected focus areas will also be conducted in-house. The Fund believes this is the best way to achieve its broad goal of integrating sustainability as an essential element of all analytical and decision processes, which is also compatible with its mission.

The long and short-term goals for the individual focus areas, as well as the activities planned for achieving these goals, have been broken down and are stated in detail in the Fund's annual business plan for sustainability and in the action plans drafted for individual asset classes.

Corporate governance

A considerable portion of the Second AP Fund's capital is invested in Swedish and foreign equities, making the Fund a significant shareholder. The Fund is non-political and independent, both in terms of ownership and of its special status among Swedish agencies regulated by law, allowing it to act as a committed and long-term investor.

Shareholder commitment and interest in a company's longterm development is a crucial requirement for better value growth. As a long-term investor, the Second AP Fund fulfills an important function on the world's capital markets. Consequently, the Fund is actively engaged in promoting good corporate governance, high ethical standards and an enlightened environmental approach, as well as best practice within asset management.

In its contacts with publicly quoted companies, the Second AP Fund is active in the run-up to and during Swedish and foreign AGMs, as well as engaging in dialogue with the boards and executive managements of its portfolio companies.

In Sweden, the Second AP Fund works mainly with companies in which it is one of the largest shareholders or in which it has invested the most capital. In the case of companies outside Sweden, the Fund mainly addresses ethical and environmental issues via the Ethical Council. Other shareholder issues of special interest to the Fund, when related to foreign companies, are handled in collaboration with selected partners.

The Second AP Fund also promotes good corporate governance by collaborating with other investors on matters of principle and through active participation in the development of policies, regulations and standards.

Corporate governance in Swedish companies

The Fund has holdings in some 140 Swedish companies. It has decided that it is impractical to attempt to attend and vote at the AGMs of all the companies represented in its portfolio of Swedish equities.

The Second AP Fund exercised its voting rights at a total of 52 AGMs of Swedish publicly quoted companies in 2015.

Issues in focus

The Second AP Fund has for many years enjoyed a positive and constructive dialogue with Swedish publicly quoted companies, which have included discussions about many of the issues raised at AGMs.

During the year, the Second AP Fund has maintained its focus on remuneration issues and engaged in a number of dialogues with corporate boards, concerning the formulation of incentive programmes, with a view to promoting improvements.

For several years now, the Second AP Fund has stressed 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 this year's AGM season, the Fund has placed special emphasis on diversity and, in particular, on the percentage of women on corporate boards. The Fund has questioned companies' nomination committees before their AGMs, as well as commenting at AGMs. Read about the Second AP Fund's annual Female Index at www.ap2.se

In the run-up to the AGM season, the Fund also wrote to nomination committees in Swedish companies with a view to encouraging them to better motivate their nominations. The Fund has followed up on this by expressing its dissatisfaction with poorly motivated nominations at several AGMs.

Nomination committees

The Second AP Fund favours having a representative on the nomination committees of portfolio companies, as this provide 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 2015 AGM season, the Second AP Fund was represented on the nomination committees of Opus Group, Kungsleden, Tele2, FormPipe, Flexenclosure and Midsona. In 2016, the Second AP Fund will be represented on the nomination committees of Opus Group, Tele2, FormPipe, Coor Service Management, Nordax, Lundin Petroleum, Kungsleden and Flexenclosure.

Corporate governance in foreign companies

Since 2008, to improve the governance of its foreign investments, and in cooperation with the First, Third and Fourth AP Funds, the Second AP Fund has operated a joint electronic voting platform, based on the AP funds' governance policies. Most issues are managed automatically via the voting platform, with the exception of matters such as remuneration issues, which are forwarded to the funds for individual assessment. Each fund decides individually as to how it will vote.

On foreign markets the Fund mainly votes in the following eleven countries: Australia, Canada, France, Germany, Great Britain, Italy, Japan, the Netherlands, Spain, Switzerland and the USA. The criteria for determining the companies in which the Fund should exercise its voting rights derive mainly from the MSCI global index. There are other criteria too, such as when the Fund is engaged in a dialogue on a specific issue with a company and/or when the Fund has submitted a shareholder proposal for consideration by the AGM.

During 2015, the Second AP Fund exercised its vote at more than 800 foreign AGMs. The Fund employs an external party for the practical voting process and submits a written vote (proxy voting) using the electronic voting platform.

Letters to foreign companies

During 2015, to further improve corporate governance in its foreign portfolio companies, the Second AP Fund wrote letters to some 50 of these companies, clarifying its views on active governance and the importance of exercising voting rights. In these letters, the Fund has also explained why it was unable to support the recommendations of the boards on specific proposals. In several cases, these letters have resulted in further contact with the companies in question, sometimes by letter but also in the form of teleconferences.



More about how the Second AP Fund voted at various corporate AGMs at **www.ap2.se**

The Ethical Council

The Ethical Council is a collaboration between the First, Second, Third and Fourth AP Funds, which was launched in 2007. It is engaged in monitoring and analysing the AP Funds' foreign portfolio holdings concerning possible breaches of international conventions to which Sweden is a signatory. This work is based on the principles of commitment, action and change, with the intention of making a difference.

The Ethical Council identifies companies that can be linked to breaches of conventions and focuses on persuading such companies to deal with confirmed breaches and to implement systems and measures to preclude future violations.

The Ethical Council also works proactively to prevent violations, by engaging in dialogues with individual companies and by means of various initiatives directed at different industries or addressing specific issues.

Dialogue is a vital tool in enabling the Ethical Council to influence corporate behaviour. It believes that committed ownership is the best way to achieve change. If the AP Funds exclude their holdings, the problem at issue remains, and the violations continue. However, as an absolutely last resort, the Ethical Council can advise the AP Fund in question to exclude a company, when any possibility of effecting a change seems hopeless.

In 2016, the Second AP Fund will chair the Ethical Council. More on the work of the Ethical Council at www.etikradet.se

Collaboration with other investors

In addition to cooperating with its fellow AP funds through the Ethical Council, the Fund is also a member of and actively supports various Swedish and international initiatives focused on the environment, ethics and corporate governance. The Fund also collaborates with other investors on influencing new legislation, mainly within the field of corporate governance. These forms of collaboration are becoming increasingly important as a means to influence and effect change, and thereby improve share value over the long term. More about the Second AP Fund's memberships and initiatives at www.ap2.se

During 2015, the Fund participated in several PRI initiatives, such as the Sustainable Stock Exchanges initiative, where the Fund – in a joint action with other investors – wrote to several stock exchanges and asked them to establish guidelines for companies concerning reporting procedures in connection with the environment, ethics and corporate governance.

The Fund has also written to a number of European, US and Japanese automotive manufacturers, challenging them to become more transparent, on subjects such as their carbon footprints. Furthermore, the Fund has also written to European companies, challenging them to declare their positions regarding their climate and energy policies, processes and lobbying activities, with a view to clarifying the poor correlation between the positions adopted in their official policy statements and those declared by their respective industry organizations.

UN's Sustainable Development Goals

In September 2015, the 193 member nations of the United Nations unanimously adopted 17 global Sustainable Development Goals. These goals, which are to be achieved by 2030, are designed to eliminate poverty and create a sustainable world. The 17 global goals have been subdivided into 169 intermediary goals, which are to be measured using a variety of indicators. Each nation is responsible for implementing and monitoring these sustainable goals. Each nation is also encouraged to develop its own action plans. The UN will present the progress made on achieving these goals in an annual report entitled the Sustainable Development Goals Report. Achieving these goals will require collaboration between governments, civil society and the business community.

Through its sustainability programme and the investments it makes, the Second AP Fund contributes in several ways to these UN Sustainable Development Goals. Examples include the following:

Goal 1. End poverty – the Fund has invested in a social bond, intended to eliminate and combat poverty and inequality, as well as to promote sustainable economic growth in Latin America and the Caribbean.

Goal 3. Ensure health – the Fund has investments in private equity funds that in turn invest in companies whose strategy is healthcare development.

Goal 5. Achieve gender equality – since 2003, in its Female Representation Index (Female Index), the Second AP Fund has conducted an annual measurement of the percentage of women represented on the boards and executive managements of Swedish publicly quoted companies. The Female Index is intended to promote informed debate about how the percentage of women on the boards of listed Swedish companies can be increased, as well as the diversity of these boards in terms of age, background, experience and competence.

Goal 7. Ensure access to sustainable energy – the Fund has investments in private equity funds that invest in renewable energy, as well as unit trusts that subscribe to a sustainable approach.

Goal 8. Promote growth and employment– through its investments, the Fund contributes to economic growth. Among other activities, the Fund conducts dialogues with companies to combat forced labour, child labour, slavery and trafficking.

Goal 10. Reduce inequality – in 2015, as part of its diversity programme, the Fund decided to join the Mitt Liv (My Life) organization. Mitt Liv is dedicated to increasing diversity and integration on the Swedish labour market.

Goal 13. Combat climate change – as part of its commitment to this goal, following the results of climate-impact risk analyses of its portfolios, the Fund no longer invests in 48 companies. More about the Fund's climate work on page 30.

For more about the Second AP Fund's sustainability programme, see the Sustainability and Governance Report at www.ap2.se.





































SUSTAINABILITY

Climate

Climate is one of the Second AP Fund's focus areas, which means that climate issues, where relevant, shall be an integral element of analytical and decision processes for all asset classes. The Fund is also committed to reducing its direct impact on the climate through its in-house environmental programme.

Climate issues – and climate change in particular – pose huge risks and offer equally huge opportunities for a long-term investor like the Second AP Fund. Climate change is expected to have a major impact on long-term return. Since 2013, the Second AP Fund has been engaged in an ongoing analysis of the various financial risks associated with climate change, one result of which has been the Fund's decision during the year to cease investment in 28 energy companies. The Second AP Fund is also active in increasing awareness of the carbon footprint associated with investment portfolios.



Analysis of the potential financial risks of climate change led AP2 to divest holdings in 28 energy companies during 2015.

Climate conference in Paris

At the United Nation's 2015 Paris Climate Conference COP21 in December, the world's nations achieved consensus on a global climate agreement. The agreement has established a clear goal that global warming should be restricted to well below 2 degrees C and that efforts will be made to limit the temperature gain to no more than 1.5 degrees C. The agreement clearly points the way to a society free from net emissions of greenhouse gases. This goal is to be realized some time after 2050. The fact that all nations must update their action plans every five years, detailing how they will cut back on their emissions, means that a process is now in place for monitoring climate efforts.

The business community and investors were extremely active, both prior to and during the climate conference. One such

example was the World Climate Summit, a forum held during the climate conference, where representatives for the business community, the finance industry and governments discussed sustainability issues from a number of different perspectives. The Second AP Fund's CEO, Eva Halvarsson, participated as part of a panel that discussed the challenges involved in changing current energy systems.

The Second AP Fund has been a member of the Institutional Investor Group on Climate Change (IIGCC) for several years now. The IIGCC has been highly active in 2015, determined to demonstrate investors' commitment to the climate issue and to stress investors' keenness to see the introduction of policies that will enable increased investment in climate-smart solutions. Among other actions, the IIGCC has jointly published the Global Investor Statement on Climate Change with a number of other investor organizations. This document describes ways in which investors can help combat climate change and what they hope their governments are prepared to do about it. More than 400 investors have backed this Statement.

In November 2015, the Second AP Fund became a signatory to the Montreal Pledge, by which the Fund has undertaken to measure and report its carbon footprint. By December 2015, some 117 investors had signed the initiative.

In conjunction with the Paris Climate Conference, the Fund organized an in-house climate seminar for all employees, to increase awareness of climate issues.

The financial risks of climate change

The Fund has an in-house working committee concerning fossil energy issues and the financial risks of climate change. Analyses are conducted in accord with the Fund's mission to address ethical and environmental issues without compromising the overall goal of a high return on investment and, consequently, are designed to determine financial risk. In 2014, the committee analysed fossil energy companies, as a result of which the Fund divested its holdings in 20 companies.

During 2015, the Fund conducted a financial analysis of climate risks that applied to the utility sector. The Second AP Fund

deems that the utility sector is at the start of a period of change, during which coal-generated electricity will be phased out. This development may partly be attributed to demands for lower carbon emissions, but also to safety and economic factors, now that the cost of generating electricity from renewable energy sources is comparable to the cost of generating electricity from fossil fuels. The pace of this process of change will vary between countries and geographical regions. The Fund feels that the market is aware of this change process, but has yet to factor the full implications into its valuation of corporate stocks. It is difficult for the market to predict (and set a price on) the timing of this change, or to judge the scale of its financial impact.

The Second AP Fund deems that companies where more than 30 percent of profits (EBIT) derive from the production of coal-generated electricity are exposed to a significant financial climate risk. In determining the percentage of company profits derived from coal-generated electricity, the Second AP Fund has based its calculations on the company's energy mix and the amount contributed to the company's EBIT by electricity generation.

The Second AP Fund's benchmark index comprises 116 utility companies. Of these, 30 companies derive more than 30 percent of their profits (EBIT) from the production of coal-generated electricity. Two of these companies are deemed to have sufficiently robust strategies for reducing their climate risks on markets in which they operate, and therefore remain within the Fund's investment universe. This means that the Second AP Fund has divested its holdings in 28 companies, equivalent to approximately a quarter of all electricity-generating companies.

Carbon footprint

The Second AP Fund is positive to measuring and auditing the greenhouse emissions generated by its investments, as part of its broader commitment to protecting the climate. A carbon footprint provides investors with important data, but has its limitations (see table below).

During 2015, the Fund has been instrumental in promoting standardization of the way in which the carbon footprint should be calculated by investors. To this end, the Fund has participated in a number of seminars/workshops where this issue has been discussed. In the autumn of 2015, with the other AP Funds, the Second AP Fund presented a joint summary of how a carbon footprint may be calculated.

The differing investment strategies and allocations to different types of financial asset that characterize the AP Funds mean that carbon footprints calculated for the Funds' investments vary in size. Disparities are further increased due to the fact that some of the underlying corporate data must sometimes be revised, complemented or estimated, which means that the chosen supplier of the carbon footprint calculation will to some extent influence the result. Consequently, carbon footprints are not fully comparable across the AP Funds.

Henceforth, the AP Funds' carbon footprints will be calculated as per December 31 of the current year, based on the latest available CO₂ data for direct emissions (Scope 1) and indirect emissions from purchased energy (Scope 2). The First, Second, Third, Fourth and Seventh AP Funds will calculate and report the carbon footprints for their portfolios of listed equities, based on

Carbon footprint - benefits and limitations

Carbon footprint – benefits	Carbon footprint – limitations					
Provides basis for determining certain climate-related financial risks and for pricing carbon emissions.	Fails to assess the investments' total climate impact because: Only certain emissions are included Emissions data from companies is incomplete Only certain asset classes are assessed Reductions in emissions derived from products and services not included Information about fossil-based reserves not included.					
Can provide a basis for influencing companies concerning requirements for emission-reduction targets, risk management, business strategies and transparency.	Fails to assess a portfolio's total climate risks, such as the physical risks of extreme weather, flooding and drought or the consequences of more stringent legislation governing energy efficiency. Nor is a carbon footprint a reliable measure of a portfolio's overall climate potential or how well it is positioned for transition to a carbon-efficient society.					
Improves AP Funds' transparency and encourages greater transparency within the business community as well as promoting the provision of higher-quality data.	Fails to assess what is required to achieve the 2oC target and provides no guidance on how investors can help achieve it. A narrow focus on the reduced footprints of individual portfolios risks diverting attention from actual emission reductions and ways for investors to realize solutions for achieving a carbon-efficient economy.					

the size of their equity interest. The Sixth AP Fund will report these indicators for its non-listed portfolio, based on its equity interests.

All AP Funds report carbon footprints using the following three indicators:

- 1. The absolute carbon footprint for the portfolio of equities, corresponding to the Fund's share of the companies' combined emissions (tCO,e).
- CO₂ intensity, where the absolute carbon footprint is related to the Fund's share in the companies' market worth (tCO₂e/ SEKm).
- 3. CO₂ intensity, where the absolute carbon footprint is related to the Fund's share in the companies' turnover (tCO₃e/SEKm).

The AP Funds will also include information on the proportion of capital assets assessed, as well as the amounts based on reported and estimated $\mathrm{CO_2}$ emissions data respectively. No adjustment will be made for the double counting of emissions. Double counting means that emissions will be calculated twice, such as emissions from utility companies, which can sometimes be double accounted: both the utility company's own direct emissions and the indirect emissions generated by the companies that purchase the electricity.

Carbon footprint of listed equities

As early as 2009, the Second AP Fund conducted an extensive project to analyse the carbon footprint of its portfolio of listed equities. By gathering data from all the companies in the portfolio, based on its holdings in each company, it was possible to calculate the total carbon emissions generated by its combined holdings. For the Fund this analysis contributed to a more profound understanding of the cost of carbon emissions. If companies are forced to pay for their emissions, this will impact on their profits and cash flow. The market value of these companies will be affected by the impact such costs may have on future profits.

In 2014, the Second AP Fund once again analysed and calculated the portfolio's carbon footprint. The Fund elected to pres-

ent six different ways of measuring the footprint, to demonstrate the complexity involved in such calculations. In 2015, the Fund has reported the carbon footprint for its portfolio of listed equities employing the indicators agreed by the AP Funds. These indicators are based on the Fund's share of the companies' combined emissions. They refer to the portfolio companies' total carbon emissions for the stocks held. This means there is no separation of emissions between companies' equities and bonds. The analysis is based on data from MSCI ESG Research. With regard to the Second AP Fund's carbon footprint, data is available for 98 percent of invested capital, 64 percent of which is reported and 34 percent estimated.

The absolute carbon footprint for the Second AP Fund's total portfolio of equities in 2015 was 3 372 000 tCO₂e. If the footprint is related to the Fund's share in the companies' market worth, this results in a carbon intensity of 25 tCO₂e /SEK m, which can be compared to the carbon intensity of 28 tCO₂e /SEK m reported for 2014. If the footprint is instead related to the Fund's share in portfolio companies' turnover, this yields a carbon intensity of 29 tCO₂e /SEK m, which may be compared to the 2014 figure of 31 tCO₂e /SEK m. The fact that the Fund's carbon footprint has shrunk is primarily attributable to its disinvestment of companies involved in coal-based electricity production.

Carbon intensity varies dramatically between the Fund's different portfolios. In the case of the portfolio of Swedish equities, carbon intensity is calculated at 2 tCO $_2$ e per million Swedish kronor in invested assets. For other developed markets, the figure is 27 tCO $_2$ e /SEK m and for emerging markets 50 tCO $_2$ e /SEK m. The reason the carbon intensity reported for emerging markets is highest is because these markets feature many companies in the raw materials sector that generate substantial carbon emissions.

Carbon footprint for other asset classes

The Second AP Fund hopes eventually to be able to present a carbon footprint that comprises all asset classes. For 2015, the Second AP Fund has calculated the absolute carbon footprint from corporate bonds by dividing the companies' emissions proportionally between equities and fixed-income securities. For

Second AP Fund's carbon footprint as of December 31, 2015

	Companies' absolute emissions of greenhouse gases (Scope 1 and 2) (tCO ₂ e) ¹	Carbon intensity in relation to Fund investment based on share of companies' market worth (tCO ₂ e /SEK m) ²	Carbon intensity in relation to Fund invest- ment based on share of companies' turnover (tCO ₂ e /SEK m) ³	Market worth of Fund portfolio covered by tCO ₂ e data (SEK m, Dec. 31, 2015)	Amount of capital for which data is available (%)
AP2 portfolio of listed equities	3 372 000	25	29	148 533	98
	(3 621 000)	(28)	(31)	(127 562)	(93)

- 1 CO,e (carbon equivalent) is a unit of measure that enables a comparison between the climate impact of different greenhouse gases.
- 2 The sum of the Fund's share of portfolio-company emissions, divided by the sum of the Fund's share of these companies' turnover.
- 3 The sum of the Fund's share of its portfolio-company emissions, divided by the total market value of the Fund's holdings in listed equities.

Source: MSCI ESG Research/The Second AP Fund

this portfolio, carbon data is only available for 50 percent of its market worth. The total carbon footprint for the corporate bond portfolio is 48 000 tCO₂e. The portfolio's carbon intensity is 4.5 tCO₂e/SEK m, based on the bonds' market worth. The Fund has initiated a dialogue with fund managers about the feasibility of calculating carbon storage and carbon emissions. New Forests, one of the Fund's asset managers focused on timberland investment, has calculated the total carbon stock for its forest assets. The Second AP Fund's share is just over 5 million tCO2e. However, this figure relates to the amount of carbon stored in the trees, not the amount absorbed during a year. The Fund has also invested in green bonds that finance projects which, among other things, help cut carbon emissions.

Initiative to improve reporting

Over several years now, through its membership of the CDP (Carbon Disclosure Project), the Second AP Fund has required the world's largest publicly quoted companies to report on their greenhouse gas and other related data on how they are tackling the challenge of climate change. The Second AP Fund is keen to see that companies improve their climate reporting, given its realization of the importance of measuring and managing climate-related risks and opportunities. Consequently, during 2015, the Fund has participated in an initiative launched by the CDP and, in association with 13 other investors, has written a joint letter to some 100 Nordic companies, asking them to submit reports on their greenhouse emissions to the CDP.

During the autumn, the Fund has joined yet another CDP initiative, which will focus on European electricity generating companies. This initiative is about persuading these companies to improve and increase their reporting to the CDP, to set goals for reducing their carbon footprints and to report on any plans they may have about converting to low-carbon-emission electricity generation.

Shareholders' proposals at the BP, Shell and Statoil AGMs

In the spring, in partnership with a large number of other investors, the Second AP Fund presented a shareholder proposal at BP's and Shell's AGMs. Together with the Fourth AP Fund, the Fund also tabled a similar proposal at Statoil's AGM. The proposal addressed the idea that companies should expand reporting on their greenhouse emissions, the assessment of project portfolios in terms of relevant post-2035 scenarios, their plans regarding research and development into low-carbon energy solutions and how they intend to integrate sustainability as part of their strategic key performance indicators and bonus systems.

The boards of all the above-mentioned companies recommended shareholders to support the proposal. At the Statoil AGM, it gained the support of 99.95 percent of participants, while the figures for the Shell and BP AGMs were 98.9 and 98.28 percent respectively. The Second AP Fund will monitor



In managing its portfolio's climate risks, AP2 was ranked eleventh of the world's 500 largest investors.

these companies to ensure that their reporting procedures are developed in compliance with shareholders' proposals.

Also during the spring, in a joint appeal with 18 other investors, the Fund wrote to Shell, challenging it to resign from industry organizations in Europe and the USA that are sceptical about the threat of climate change and who lobby against the company's own goal of lower carbon emissions.

No 11 in the world for climate-risk management

In the spring, the index published by the Asset Owners Disclosure Project, which rates the world's 500 largest investors according to how well they manage climate risk in the portfolio, ranked the Fund eleventh in the world.

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 has therefore seemed entirely logical. Based on the Gothenburg City environmental certification programme, the Fund gained certification 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 and from carbon dioxide emissions in conjunction with travel. In-house goals have been established based on the Fund's environmental policy. The in-house environmental programme is managed by a specially appointed environmental group, and environmental training is ongoing for all members of staff.

In 2015, the Second AP Fund signed a 'green' leasing agreement with its landlord, Hufvudstaden. This means that Hufvudstaden and the Second AP Fund will develop action plans with a view to minimizing the premises' environmental impact. Among other elements, this will involve the exclusive utilization of 'green' electricity, the implementation of measures to reduce energy consumption and improvements to waste management.

Environmental data

	2015	2014
In-house environmental indicators		
Electricity, kWh	238 000*	151 500
Renewable electricity, %	100	100
Copy paper, purchased (A4), kg	820	991
No. of sheets printed	249 500	279 800
Business trips		
Rail travel between Gothenburg and Stockholm, %	85	78
Emissions of greenhouse emissions from:		
Domestic rail travel, tonnes CO ₂ e	0	0
Domestic air travel, tonnes CO ₂ e	8	9
International air travel, tonnes CO ₂ e	171	158

^{*} The apparent sharp increase from 2015 to 2016 is probably attributable to historically incorrect values. A thorough review and analysis of the office's electricity consumption will be conducted during 2016.

Stakeholder dialogues

The Second AP Fund maintains ongoing dialogues with a number of stakeholder groups that are either affected by or have an impact on the Fund's activities. The Fund conducts these dialogues partly itself and partly via the joint medium of the AP Funds' Ethical Council. The aspects reported in compliance with GRI guidelines have been selected to reflect the Fund's assessment of stakeholder expectations and its own priorities. More about the Fcund's dialogues in the Sustainability and Corporate Governance Report 2014/2015.

A selection of stakeholder dialogues during 2015

Stakeholder	Type of dialogue	Reporting
Swedish Parlament and Government	Individual meetingsExternal audit	 Government's annual evaluation
Other investors	 Knowledge exchange Cooperation on company dialogues Cooperation on joint initiatives 	WebsiteSustainability& CorporateGovernanceReport
Portfolio companies	AGMsIndividual meetingsLetters	Website Sustainability Corporate Governance Report
Local and global community (e.g. stakeholder organizations, students, general public)	Individual meetingsRoundtable discussionsSurveysInterviews	• Reports • Website
Employees	MeetingsDaily dialogueEmployee interview	• Staff survey
Media	MeetingsDaily dialogueEmployee interview	• Media coverage

GRI reporting

The Second AP Fund's 2015 Sustainability Report has been inspired by the Global Reporting Initiative's (GRI) G4 'core level' guidelines. The report covers the Fund's in-house operations. The Fund intends to develop this reporting process over the coming years. The report is not subjected to special examination by the Fund's auditors.

GRI-index, The Second AP Fund 2015 General standard disclosures

Indicator Description

	The second secon	_	
Strategy	and analysis		
G4-1	Statement by CEO	3–4	
Organiza	itional profile		
G4-3	Organization's name	Outside cover	e
G4-4	The most important brands, products and/or services	6–9	AP2 markets no products or ser- vices. The Fund manages pension assets in the Swed- ish national pen- sion system.

Indicator	Description	Page	Comments
G4-5	Localization of organization's head office	Outside cover	
G4-6	Number of countries in which the organization is active	www. ap2.se	AP2's only office in Gothenburg, but invests globally.
G4-7	Ownership structure and business form	75–77	
G4-8	Markets in which the organization is active	www. ap2.se	
G4-9	Size of reporting organization	Flap, 23, 62	
G4-10	Number of employees	23, 62	
G4-11	Percentage of staff covered by collective bargaining agreements	63	
G4-12	Description of organization's supply chain	6–9	To be developed in future
G4-13	Notable changes during report period	12–14	
G4-14	Description of and how the organization complies with the Duty of Care prin- ciple	47–52	

Indicator	Description	Page	Comments
G4-15	Externally developed eco- nomic, environmental and social declarations, princi- ples or other initiatives that the organization sub- scribes to or supports	25–33	Sustainability and Corporate Gov- ern-ance Report, www.ap2.se, www.ethicsradet. se
G4-16	Membership of organizations and/or national/international lobby organizations	www. ap2.se	Sustainability and Corporate Gov- ern-ance Report, www.ap2.se, www.ethicsradet. se
	aspects identified and fluence can be exerted		
G4-17	Units that form part of the organization's financial reporting	58, 59, 34	
G4-18	Description of process for defining report content and boundaries	34	
G4-19	Account of all material aspects identified	34	
G4-20	Description of boundary for each material aspect within the organization	34	
G4-21	Description of boundary for each material aspect outside the organization	34	
G4-22	Explanation to impact of changes in information supplied in earlier reports and reasons for such changes	58–59	Pre-economic data, otherwise irrelevant
G4-23	Notable changes made since previous report period	58–59	Pre-economic data, otherwise irrelevant
Stakoholo	der commitment		
G4-24	Stakeholder groups with	34	
U+-24	which the organization has contact	J +	
G4-25	Principle for identification and selection of stakeholders	34	
G4-26	Procedures for communication with stakeholders	34	
G4-27	Key areas and issues raised through communication with stakeholders	34	

Indicator	Description	Page	Comments					
Reporting profile								
G4-28	Reporting period	35	1/1–31/12 2015					
G4-29	Date for publication of the latest report		AP2 annual report, published 25/2 2015.					
G4-30	Reporting cycle		Financial year is calendar year.					
G4-31	Contact for reporting issues and content		www.ap2.se					
G4-32	Statement of content in compliance with GRI's Core reporting level and report on external corrob- oration	34–35	www.ap2.se					
G4-33	Statement of organiza- tion's policy and proce- dures for external corrobo- ration of report		Has not been audited by third party.					
Governar	nce							
G4-34	Account of organization's corporate governance	75–77	Fund's governance report, governance policy, www.ap2. se					
Ethics an	d integrity							
G4-56	Organization's values, principles, standards and norms	20–23						

Specific standard data is reported on the Fund's website at www.ap2.se



Result and performance 2015

As of December 31, 2015, Fund capital totalled SEK 300.6 billion. The net result for the year, SEK 11.7 billion, was mainly attributable to the robust performance of the Swedish stock market and on developed markets, in contrast to the emerging markets, which noted a decline. During the year, net outflows from the Second AP Fund to the national pension system totalled SEK 4.9 billion.

Fund capital is affected by two factors, the net result for the year and net flows within the pension system. In 2015, Fund capital increased by a net of SEK 6 717 (29 195) million, deriving from the positive result of SEK 11 661 (34 315) million, against which net outflows to the pension system were charged in an amount of SEK –4 944 (–5 120) million. Capital flows consisted partly of contribution payments to the system and pension disbursements from it, amounting to a net of SEK –4 768 (–4 896) million, and

partly of the cost of administering the pension system, which was charged against Fund capital in an amount of SEK –176 (–224) million. For the seventh year in succession since the pension system was launched, the net of inflows and outflows to the pension system from the AP Funds was negative. Consequently, the Second AP Fund has paid out a total of almost SEK 30 billion to cover the current deficit in the pension system.

Fund capital performance 2015, SEK million

	2015	2014
Fund capital brought forward	293 907	264 712
Pension contributions received	61 373	58 880
Pension disbursements	-66 141	-63 776
Administration contribution	-176	-224
Net result for the year	11 661	34 315
Fund capital carried forward	300 624	293 907

Composition of strategic portfolio, exposure and return as per December 31, 2015 and December 31, 2014

	Strat portfo		Expos		Exposed SEK		Absolute %		Relative %		Active ex post	
Asset class	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Swedish equities	10.0	10.0	9.6	10.1	29.0	29.7	15.2	16.8	5.9	1.2	1.6	0.8
Equities, developed markets	24.0	26.0	23.6	26.9	70.9	79.0	9.4	29.2	0.7	0.8	0.4	0.5
Equities, emerging markets	11.0	11.0	10.3	10.4	31.1	30.6	-9.1	20.8	-0.1	1.4	0.8	0.6
Swedish fixed-income securities	16.0	16.0	15.0	14.4	44.5	42.1	0.7	6.2	0.0	-0.6	0.3	0.2
Foreign government bonds	5.0	5.0	4.7	5.3	14.2	15.7	2.1	22.6	-0.4	-1.6	0.8	0.8
Foreign credits	7.0	7.0	6.7	7.6	20.2	22.4	3.2	25.8	-0.3	0.2	0.3	0.4
Fixed-income securities, emerging markets	6.0	6.0	5.7	6.0	17.3	17.7	-7.2	16.7	-0.2	-0.2	1.9	1.7
Total listed assets, excluding alternative investments, commission fees and												
operating expenses	79.0	81.0	75.6	80.7	227.2	237.2	2.4	13.5	0.9	0.5	0.4	0.3
Alternative investments	21.0	19.0	24.4	19.3	73.4	56.7	9.4	12.1				
Total Fund capital, excluding commission fees and operating expenses	100.0	100.0	100.0	100.0	300.6	293.9	4.1	13.3				

^{*} Historical outcome, 12 months rolling

Net result for the year

The net result was SEK 11.7 billion and is primarily a reflection of buoyant Swedish and global stock markets. The total negative return on the Fund's emerging market equities and fixed-income securities has been charged against the net result.

Operating income

Operating income comprises direct return as well as net result per asset class, foreign-exchange gains/losses and commission fees. Direct return, in the form of net interest income and dividends received, totalled SEK 7 355 (7 695) million for the year. The net result for listed equities comprises both unrealized and realized gains/losses, and totalled SEK 3 608 (10 437) million, including expenses for performance-based fees but excluding foreign-exchange effects. This result derives from the high return generated on the Fund's portfolios of Swedish and global equities on developed markets. The Fund's portfolio of Swedish equities generated a total return of 15.2 percent, compared with a return of 9.4 percent on the developed market portfolio of foreign equities. The combined return on emerging market equities was negative, mounting to -9.1 percent.

The net result for non-listed equities totalled SEK 3 934 (3 081) million. It is mainly attributable to unrealized gains in the value of the Fund's non-listed portfolio of real estate and to the realized gains on its investments in private equity funds.

The net result for fixed-income securities totalled SEK –3 033 (2 916) million, a result that reflects the fixed-income market's lower returns in 2015, compared to 2014. Foreign credits on developed markets, which during the year were gradually transferred to the in-house asset management team, have made a positive contribution, while that of the emerging market portfolio of fixed-income securities was negative.

The Fund's trade in derivatives posted a negative net result of SEK –62 (577) million, this negative result deriving from derivative exposure to fixed-income markets.

As a consequence of the weakening of the Swedish krona in 2015, the Fund's exposure in foreign exchange (FX) had a positive impact on the reported net result for foreign exchange assets. The Fund's ongoing hedging of parts of the portfolio of foreign exchange assets during the year has had a negative effect on the net result. The reported net of foreign-exchange gains/losses, where the exchange gain on foreign holdings (SEK 5.7 billion)

and the negative impact of currency hedging (SEK -5.3 billion) are reported together, amounted to SEK 392 (10 090) million. More details of the Fund's FX exposure on page 53.

Management costs in the form of performance-based fees, totalling SEK 144 (88) million for 2015, 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, which has a direct impact on the net result reported for each asset class, as per current accounting principles. Commission expenses pertaining to fixed external management fees of SEK 294 (267) million, as well as custodial expenses of SEK 27 (19) million, were charged against operating income. The increase in fixed external management charges derives from the negative exchange effect of a weak Swedish krona.

Fund's total expenses

The Fund's total expenses include in-house expenses in the form of operating expenses, fixed external portfolio management and custodial charges. 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 60. The Fund's operating expenses and commission expenses, expressed as an expense ratio, were unchanged at 0.18 (0.17) percent for 2015.

The level of costs is an effect of the Fund's investment strategy, where asset classes and markets that are believed to offer the prospect of solid returns and for which the Fund lacks the necessary in-house resources are managed under external mandates.

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 54.

Operating expenses

Operating expenses totalled SEK 212 (195) million. Reported as a ratio of average Fund capital over the twelve months, this corresponds to an unchanged cost level (expense ratio excluding commission fees) of 0.07 (0.07) percent.

External management costs

Management costs are to a large extent determined by the volume of Fund capital, the percentage of assets under external management and the degree of active risk adopted, as well as the asset class selected.

During 2015, the approach adopted for Fund capital under external management was mainly active and, by year-end, SEK

51 (81) billion was being managed under external mandates, including non-listed assets. This corresponds to 17 (28) percent of the Fund's entire capital.

The cost for the external management of market-listed assets partly comprises a fixed element and, for certain assignments, a performance-based element. In 2015, the fixed cost amounted to SEK 291 (262) million and the variable performance-based element to SEK 144 (88) 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 294 (267) million. The increase partly reflects the demands made by the greater volume of Fund capital under management and partly the effect of a weaker krona, but is also attributed to the increased capital allocation to externally-managed alternative risk premiums, Chinese Series A equities and alternative credits. Furthermore, the fact that the AP Funds have been liable to pay VAT on foreign acquisitions since 2012 has also increased costs. As the AP Funds are not entitled to reclaim VAT payments, this VAT registration requirement constitutes an implicit increase in the Fund's overall costs.

Custodial expenses

The internalization process, which continued during the year, has had an impact on the volume of custodial assets. Assets previously managed via external funds or derivatives, where

custodial expenses have been included in fund fees, have been transferred to in-house management during the year. This transfer, combined with the rise in value of all assets, has led to higher custodial expenses in 2015. They are also affected by the type of asset deposited with the custodial bank. Assets exposed to emerging markets, for example, are relatively expensive to place on deposit. The Fund's custodial expenses totalled SEK 27 (19) million in 2015.

Brokerage commission

A brokerage commission is paid on the purchase and sale of equities and participations. When buying and selling other asset classes, 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, listed equities and participations (see note 2 on page 60). Commission fees paid in 2015 totalled SEK 118 (98) million. Of these costs, 7 (5) 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 0.06 (0.04) percent of the total trading volume. The following five counterparts (listed in alphabetical order) received commissions corresponding to 64 percent of total commission payments: Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan and UBS AG.

Contribution to absolute return, %

Asset class	2015	2014
Swedish equities	1.5	1.8
Equities, developed markets	2.8	7.8
Equities, emerging markets	-1.0	2.1
Swedish fixed-income securities	0.1	1.0
Foreign government bonds	0.1	1.1
Foreign credits	0.3	1.8
Fixed-income securities, emerging markets	-0.5	0.9
Absolute return	0.2	0.1
Overlay	-0.2	-0.2
FX Hedge	-1.3	-5.2
Alternative Investments	2.1	2.1
Total assets, excl. commission fees and		
operating expenses	4.1	13.3

Contribution to relative return, %

Asset class	2015	2014
Swedish equities	0.68	0.15
Equities, developed markets	0.19	0.23
Equities, emerging markets	-0.02	0.15
Swedish fixed-income securities	0.00	-0.11
Foreign government bonds	-0.03	-0.09
Foreign credits	-0.03	0.02
Fixed-income securities, emerging markets	-0.03	-0.01
Absolute return	0.21	0.16
Total market-listed assets excl. alternative investment and implementation effects	0.97	0.50
Implementation effects*	-0.08	-0.02
Total market-listed assets excl. alternative investment and incl. implementation effects	0.89	0.48

^{*} Result effects to maintain exposure to the strategic portfolio.

Portfolio return

The return on the total portfolio for 2015 was 4.1 percent, excluding commission fees and operating expenses but including performance-based fees.

At 15.2 percent, Swedish equities generated the highest return among asset classes. Foreign equities on developed markets noted a return of 9.4 percent in Swedish kronor, excluding FX hedging effects. Consequent to a combination of poor performance and negative FX effects, foreign equities on emerging markets generated a negative return of –9.1 percent in Swedish kronor.

Following last year's robust combined result of 14.4 percent, fixed-income instruments performed somewhat more modestly in 2015. Swedish bonds generated a return of 0.7 percent. Foreign government bonds and credits saw their value increase in Swedish kronor, excluding FX hedging by 2.1 and 3.2 percent respectively. On emerging markets, bonds (like equities) underperformed. Portfolios declined in value by –7.2 percent in Swedish kronor.

Alternative Investments, i.e. real estate, private equity funds, alternative credits, alternative risk premiums and Chinese Series A equities, generated a return of 9.4 percent, including FX hedging.

The contribution made by different asset classes to the total result depends both on the return generated and on the relative percentage of portfolio value they represented during the year. Representing a large share of the portfolio, equities on developed markets contributed 2.8 percent to the overall result. Swedish equities contributed 1.5 percent and emerging-market equities –1.0 percent. Swedish bonds and foreign government bonds both contributed 0.1 percent. Foreign credit bonds shot to 0.3 percent, while emerging-market bonds drew down the net result by –0.5 percent. Alternative Investments contributed 2.1 percent, including FX hedging.

The Fund's FX hedging policy is designed to mitigate portfolio risk. To achieve this, the Fund implements a systematic FX hedg-

ing programme of developed countries' currencies, with a view to reducing variation in portfolio worth over the long term. The weakening of the Swedish krona during the year impacted negatively on the total portfolio by –1.3 percent. Due to the fact that the Fund does not hedge its entire exposure to the currencies of developed countries, this negative effect on overall return was more than compensated by the rise in the value of its foreign exchange assets. The Fund does not hedge emergingmarket currencies.

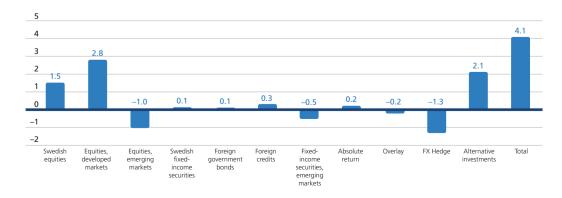
The Fund's real estate portfolio, excluding timberland and farmland, generated a return of no less than 19.6 percent over the year. The portfolio of timberland and farmland is still in the build-up phase, incurring initial investment costs that resulted in a return of –7.7 percent for the year. The return on private equity investments was 8.5 percent, while the portfolio of alternative risk premiums generated 0.6 percent.

During the year, the Fund increased its allocation to equities on the domestic Chinese market, commonly referred to as Chinese Series A equities. In view of the fact that opportunities for adding or withdrawing assets from this portfolio are subject to certain administrative constraints, it has been classified under alternative investments. During a period of considerable volatility, the Chinese portfolio generated a return of 32.1 percent.

The Fund's portfolio of alternative credits mainly comprises listed corporate loans intended for short-term investment, but also includes high-yield credit bonds. The fact that the premium for these types of credit rose during the year affected the return on the portfolio, which amounted to -0.2 percent.

Over the past five and ten years respectively, the Second AP Fund has generated an average return on invested assets of 8.2 and 5.9 percent per annum. Less inflation, this is equivalent to an annual real return of 7.8 percent over five years and 4.8 percent over ten.

Contributions to the total portfolio, absolute return 2015, %



Relative growth for portfolio of listed assets

The Fund's portfolio of market-listed securities comprises Swedish and foreign equities, Swedish and foreign fixed-income securities, tactical allocation and FX management. In 2015, the listed portfolio posted a positive return of 2.4 percent. Total relative return, i.e. active return minus implementation effects (costs arising in connection with rebalancing and transactions that are not attributable to active management) was 0.9 percent. The relative return is charged with –0.1 percent attributable to implementation effects.

Over the past five years, the Fund's active return has averaged 0.6 percent per year. For four of these five years, the active return has been positive. Over the same period, implementation effects have averaged –0.1 percent. Thereby, the average relative return has been 0.5 percent. The Fund's in-house target for relative return is 0.5 percent per year. The relative result for the year is therefore very satisfactory.

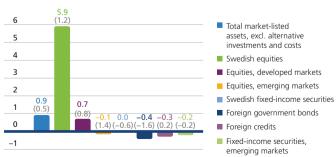
Swedish equities

The portfolio of Swedish equities outperformed benchmark index by no less than 5.9 percent. The portfolio of fundamental-focused large caps outperformed the market index by 5.5 percent, and 5.2 percent for the portfolio matched against an equal-weighted index. The Fund's management of small cap investments proved successful yet again, generating an excess return of 11.4 percent. The Fund manages all Swedish equities in-house.

Foreign equities

The Fund's management of foreign equities on developed markets delivered a positive active result of 0.7 percent. The active result for emerging-market equities was –0.1 percent. Chinese Series A equities are managed under large-deviation mandates,

Relative return per asset class 2015 (2014), %



and the active return for the year was an impressive 16.5 percent. Since these Chinese equities are part of the portfolio's alternative assets, this active return is not included in the Fund's combined active return.

Swedish and foreign fixed-income securities

The active return on Swedish fixed-income securities was neutral. The Fund's active return on its quantitative management of fixed-income securities was positive for the ninth year in succession, at 0.1 percent. The portfolio of foreign government securities, managed in-house, under-performed against index by 0.4 percent.

During the year, the portfolios of credits under external mandates were transferred to the Fund's in-house management team. Consequently, certain transaction costs were charged against the portfolio's result. For the time being, these credits will continue to be managed passively, but will eventually be managed actively. The active return over the year was –0.3 percent, the in-house portfolio posting a return of –0.3 percent.

Since 2014, the management of emerging-market bonds, issued in US dollars, has been handled exclusively in-house. The portfolio, most of which was initially under passive management, was placed under active management during the year. The active return was -0.2 percent.

Until last year, emerging-market bonds in local currency were managed under external mandates. Like the portfolios of credits, the emerging-market portfolios were transferred to the Fund's in-house management team during the year and certain transaction costs have therefore been charged against them. Currently under passive management, they will eventually be managed actively. The relative return on this passive management was neutral.

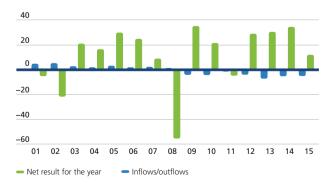
Tactical allocation and FX

The Fund's in-house tactical allocation activities delivered a positive result of SEK 297 million. In-house FX trading during the year delivered a result of SEK 64 million. The externally managed GTAA mandates continued to make a positive contribution of SEK 109 million to the active return.

Five-year review	2015	2014	2013	2012	2011
Fund capital, flows and result, SEK million					
Fund capital	300 624	293 907	264 712	241 454	216 622
Net outflows to the Swedish Pensions Agency	-4 944	-5 120	-6 880	-3 788	-1 240
Net result for the year	11 661	34 315	30 138	28 620	-4 645
Annual return, %					
Annual return on total portfolio before commission and operating expenses	4.1	13.3	12.8	13.5	-1.9
Annual return on total portfolio after commission and operating expenses	4.0	13.1	12.7	13.3	-2.1
Annualized return after commission and operating expenses, 5 years	8.0	9.4	10.8	2.4	0.6
Annualized return after commission and operating expenses, 10 years	5.7	7.1	7.0	7.4	4.3
Risk, %					
Standard deviation ex-post, total portfolio ¹	8.7	9.1	9.3	_	_
Standard deviation ex-post, daily market-listed portfolio	8.9	5.7	5.7	6.4	10.0
Sharpe ratio ex-post, daily market-listed portfolio	0.3	2.2	2.1	1.9	neg
Sharpe ratio ex-post, total portfolio	0.5	2.6	2.4	2.0	_
Share of management costs as % of assets under management					
Asset management cost incl. comission expenses	0.18	0.17	0.17	0.16	0.17
Asset management cost as share of operating expenses	0.07	0.07	0.07	0.07	0.07

¹ Calculated over ten year's quarterly returns.

Fund performance and flows 2001–2015, 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, followed by the financial crisis, which peaked in 2008. During 2011, the financial markets were sharply affected by debt crises in different parts of the world, although in 2012 and 2013 the world's stock markets once again noted solid growth. These crises have been mirrored by the Fund's sharply fluctuating net result and capital over its first fifteen years of operation.

Alternative Investments

The Second AP Fund has gathered its investments in non-listed real estate equities (including timberland and farmland), private equity funds, alternative risk premiums, alternative credits and the domestic Chinese equities market under asset class Alternative Investments.

The overall return on alternative investments for the year was 14.3 (FX hedged 9.4) percent. Alternative investments apart from equities on emerging markets are hedged to 100 percent. The return for respective asset classes is reported both excluding and including FX hedging. The result of FX hedging was negative throughout, in light of the weakening of the Swedish krona during 2015.

Traditional real estate

The Fund's non-listed real-estate holdings consist primarily of a 25-percent interest in Vasakronan Holding AB, a 50-percent interest in NS Holding AB (Norrporten), a 25-percent interest in Cityhold Office Partnership via Chaptwo S.à.r.l., and a 41-percent interest in US Office Holdings. All these investments focus on high-quality traditional real estate, centrally located in real-estate markets with good liquidity. The portfolio has been complemented by two smaller investments in real-estate funds, one in Asia and one in Poland, in line with the Second AP Fund's long-term aim of gradually increasing exposure to emerging markets.

By investing in real estate, the Fund generates a solid long-term direct return on investment and contributes to a satisfactory spread of risk in the total portfolio.

Vasakronan, which is owned jointly by the First, Second, Third and Fourth AP Funds, is Sweden's largest real-estate company, with a concentrated and attractively located portfolio of real-estate holdings in the Stockholm, Gothenburg, Öresund and Uppsala areas.

Vasakronan owns and manages 180 properties, totalling 2.5 million square metres of floor space, with a total market worth in excess of SEK 100 billion.

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 in mid-sized Swedish cities that enjoy solid growth (Luleå, Umeå, Sundsvall, Örebro, Jönköping and others), but also has real estate in Stockholm and Copenhagen. Norrporten owns and manages 120 properties, totalling 1.1 million square metres of floor space, with a total market value of SEK 26 billion.

During the year, in partnership with TIAA-CREF, the First and Second AP Funds formed a new joint-owned company, with a view to creating a leading European platform for investment in Europe. The office properties previously owned by TIAA General Account and the First and Second AP Funds' real-estate portfolio, managed by Cityhold Property AB, are now combined under the joint-owned company, Cityhold Office Partnership. The combined real-estate portfolio, which is valued at 2.3 billion euro, comprises 15 office properties, featuring 258 000 square metres of office space in prime locations in Great Britain, France and Germany. TH Real Estate will handle the company's administration, as well as investment and portfolio management.

Alternative investments' share of the total portfolio and its constituent elements, %



Together with state-owned South Korean pension fund NPS and the real-estate company Tishman Speyer, the Fund has joint interests in the American real-estate companies US Office Holdings and Core Office. The companies own real estate both directly and jointly. This real-estate portfolio consists of 22 centrally located office properties, four of which were acquired during the year, spanning a joint floor space of approximately 1.4 million square metres. The properties owned by these companies are currently valued at around SEK 55 billion. Almost seventy percent of the portfolio's market worth consists of real estate on both the east and west coasts of the USA, in New York, San Francisco, Seattle and Los Angeles. Twenty-five percent of the portfolio's market worth derives from real estate located in Chicago.

In 2013 the Second AP Fund invested in Gateway Real Estate Fund IV (GAW), which invests in real estate in East Asia, mainly in China.

In 2014, the Second AP Fund invested in an additional realestate fund, Hines Poland Sustainability and Income Fund, which invests in office properties and logistics facilities in Warsaw and Cracow. To date, the fund has acquired three office properties and one logistics facility in Warsaw.

The return generated on the Second AP Fund's investments in traditional real estate was 21.8 (FX hedged 19.6) percent.

Private equity funds

For the private equity industry, 2015 – like 2014 – was a year dominated by divestments to strategic buyers and several stock market flotations, leading to a substantial inflow of capital to investors. However, the year saw fewer IPOs (Initial Public Offerings) compared to 2014, a decline that was especially pronounced in the USA.

The Second AP Fund's portfolio noted a high degree of activity across the board, with the portfolio companies posting solid profit growth. As well as many investments, the private equity funds also completed a large number of divestments and IPOs. One of the largest market divestments completed during the year was TPG VI's sale of Par Pharmaceuticals, a company operating in the healthcare sector, to the Irish company Endo Pharmaceuticals, for just over USD 8 billion. The company was purchased by TPG in 2012 for USD 1.9 billion. The sale generated the year's largest inflow to the Second AP Fund's portfolio of private equity.

The Second AP Fund made 15 new investments during the year, comprising commitments totalling SEK 4.0 billion. As of December 31 2015, the Fund's combined investment commitments thereby totalled SEK 30.5 billion. Since its inauguration in 2001, the Fund has invested SEK 19.3 billion (including management fees), of which SEK 2.7 billion in 2015. Although the portfolio is still at the build-up phase, a growing number of the private equity investments may already be considered mature. Since the start, SEK 13.8 billion has been reimbursed.

The return on investment in private equity funds was 15.2 (FX hedged 8.5) percent for 2015, the market worth of the portfolio amounting to SEK 15.5 billion at year-end, excluding FX hedge. Fees paid for the management of non-listed 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 58.

The share of non-listed holdings, calculated in relation to the statutory five-percent limit, amount to slightly less than five percent as of December 31 2015. More than 50 percent of the holdings in three private equity funds consist of listed securities and are therefore not defined as non-listed assets.

Alternative credits

The Second AP Fund has allocated two percent of its strategic portfolio to investments in credit opportunities that have arisen in connection with the revised regulations and restructure of financial markets, introduced in the wake of the global financial crisis. One example is that the banks have transferred their lending from small and medium enterprises to the very largest companies.

The Second AP Fund's investment mission is long-term, providing the stability needed to benefit from prevailing market conditions. The full worth of the value created can only be realized when the securities and credits mature, requiring the investments to be retained for their full term.

The average term for the credits that dominate the investments selected in the credit market segment (loans to companies) is shorter than for the more common bonds that institutional investors these days have large exposure towards. Shorter terms and, not uncommonly, FRNs (floating rate notes), mean that sensitivity to potential hikes in interest rates from the currently extremely low levels is less.

A number of these assets are defined as non-listed, in which the Second AP Fund has only limited freedom to invest, due to the current legislation affecting non-listed investments. Even though the restriction to market-listed structures somewhat limits the investment choice, both the breadth and depth in the choice of these listed investments is adequate to enable the Fund to generate the investment opportunities it seeks.

The anticipated return is in line with the Fund's long-term assumptions concerning the return on equities, seven-eight percent. With an anticipated return at this level, the investment contributes to an increased, absolute and risk-adjusted, return in the long term.

Since the portfolio was established, the Second AP Fund has conducted ongoing investment in corporate credits by utilizing external fund managers that apply broad and in-depth credit analyses. By about the close of the first half of 2014, the portfolio was fully invested. The return for 2015 was 5.5 (FX hedged –0.2) percent. The return is in line with the portfolio's benchmark index. The level of return was negatively affected during the autumn by an outflow from this type of asset, mainly in the form of energy-related investments on the American market. Nevertheless, the quality of the Fund's investments in credit opportunities remains good.

Alternative risk premiums

Alternative risk premiums shall contribute to increased diversification and generate higher risk-adjusted return, since the portfolio is constructed to be less dependent on traditional stock market risk.

The strategies adopted by the portfolio are linked to stock market volatility, premiums for reinsuring insurance companies, premiums associated with the market for corporate acquisition and convertibles as well as strategies focused on the FX market and the market for future dividends on corporate profits. Other possible risk premiums may be added later. The return for 2015 was 7.8 (FX hedged 0.6) percent.

Chinese Series A equities

In 2012, the Second AP Fund was awarded a QFII (Qualified Foreign Institutional Investor) licence, followed by a permit to invest an amount equivalent to USD 200 million in 2013. Trading in Chinese

Series A equities was initiated in November 2013, mandates being issued to two fund managers, APS and Cephei. In conjunction with a new QFII licence, permitting investment of an additional USD 200 million, UBS was also issued a mandate in 2015.

The Second AP Fund has allocated one percent of the strategic portfolio to investments in Chinese Series A equities, current exposure corresponding to 1.5 percent. In these investments, the Fund seeks exposure to the structural development of the market and the portfolio strategies adopted involve an agnostic approach to MSCI China A gross, the Chinese benchmark index. The index is considered ineffective and notable for high volatility, which makes a high relative deviation in relative terms likely. This effect was manifest during 2015, when all Fund portfolio managers posted high excess returns, in spite of a turbulent market. Absolute return for 2015 was 32.1 percent.

Timberland and farmland investments

In 2010, the Second AP Fund made its first investments in farmland and timberland, as part of its strategy for diversifying the overall portfolio. These investments are both considered to generate a stable return, in light of the fact that the underlying trend towards increased urbanization and improved welfare, in combination with a growing global population, is increasing demand for forest and agricultural products. Both asset classes are also deemed to be relatively insensitive to cyclical fluctuations, added to the fact that covariance with other asset classes – such as equities – is considered to be low.

Today, the portfolio of timberland and farmland comprises of nine different funds/companies, with joint investment commitments totalling SEK 13.8 billion as at December 31, 2015. When choosing its fund managers, the Second AP Fund considers it important that they subscribe to the same values of long-term, responsible and sustainable investment. The Fund has elected to invest in farmland in the form of joint ventures with other investors, a form that suits the Fund's long-term approach to these investments. The farmland investments are located in Australia, Brazil and the USA. The main focus is grain production on large-scale, high quality farmland, in countries that possess clearly-defined legal structures, where agricultural production is effective and not dependent on state grants or other forms of support. No new investments in farmland were made in 2015.

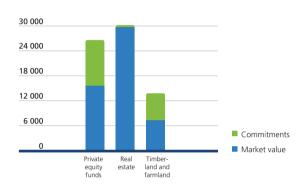
The Second AP Fund's forest investments are located mainly in the USA and Australia and focus on conventional forest management for the production of traditional pulpwood and saw timber, featuring a careful balance between softwood and hardwood. The majority of these investment commitments are structured as funds. As a complement to these investments, the Second AP Fund has also invested in a company engaged in forest investments in Latin America and Europe, where production is geared partly towards biomass. No new investments in timberland were made in 2015.

All the funds/companies in which the Second AP Fund has invested are clearly focused on the sustainable, responsible ownership and management of their real estate investments and on the certification of their operations (SFI, FSC and AFS).

In 2015, the Fund generated a return of -3.4 (FX hedged -10.5) percent on investments in farmland and 10.5 (FX hedged 5.6) percent on timberland investments.

The negative return on farmland is attributable to a sharp weakening of the Brazilian and Australian currencies against the US dollar during the year, resulting in unrealized exchange losses. All timberland and farmland investments in the portfolio note stable and positive revenues in local currencies. The market valuations for the timberland and farmland managed by the funds and companies in which the Second AP Fund has invested also remained stable.

Non-listed alternative investments, classified according to market worth and commitments remaining, SEK million



RISK MANAGEMENT

Controlled increased risk

The Swedish Parliament has formulated clear guiding principles as to how the AP Funds shall interpret their task as fund managers. The AP Funds shall adopt financial risk in an effective manner with a clear focus on future pensions. Apart from a few constraints, the funds have been awarded considerable freedom in selecting appropriate risk and investment strategies, independent of one another. The selected strategy shall be neutral with regard to the generations involved and shall ensure the maintenance of pension disbursements.

The starting point for the Second AP Fund's investment strategy and financial risk is that the AP Funds are only able to influence future pensions to the extent that their portfolio management activities impact on the pension system's automatic balancing mechanism. The Board of Directors has therefore concretized the Fund's goal for its asset management activities as minimizing the consequences to future pensions of activating the automatic balancing mechanism. It is the primary risk that determines the way in which investment strategy is formulated, rather than the selected portfolio's risk profile. By far the greatest portion of financial risk adopted by the Second AP Fund in its portfolio management operations derives from its long-term exposure to financially motivated risk premiums, as expressed by the strategic portfolio. The financial risk is thus directly linked to the Fund's assessment of the development of the total pension system over the coming decades.

This is subject largely to factors outside the Fund's control, such as demography, immigration, employment levels, economic growth and so on. The financial risk is also governed by the Fund's assessment of the financial markets' long-term prospects for generating a return. A key point when determining the choice of strategy is that the AP Funds, compared to the Swedish national pension system as a whole, are of relatively limited size. Their limited size means that the funds are forced to adopt a significant level of financial risk. However, this also means that the financial risk adopted will have less of an effect on the pension system.

The long-term allocation of assets and spread of risk that the Second AP Fund deems will minimize negative effects on future pensions features a relatively high proportion of higher-risk assets. This means that the value of the portfolio, from one time to another, is expected to show a higher variation than if the allocation of assets had been more defensive. A guiding principle governing the development of the Second AP Fund's long-term investment strategy is to diversify risk in the portfolios where possible, without compromising on the requirement for a

high return. In this way, the Fund hopes to minimize the risk of a negative trend in pensions over the long term, while at the same time limiting the portfolio's short-term risk as far as possible.

The long-term orientation the Fund chooses for its portfolio may be characterized in a several ways. One way is to describe it as an allocation of assets between different assets and strategies. Another way is to describe it in terms of anticipated future returns. A third way is in terms of the portfolio's expected risk profile, which plays a key factor in achieving the overall objective – to minimize the risk of lowering the level of future pensions – which is the mission the AP Funds have been tasked with.

Controlling risk

The selected level of risk is determined by three parameters. The risk policy, which is determined by the Board of Directors, prescribes the parameters governing the Fund's overall 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 levels of exposure to risk are specified in an Investment Guideline.

The starting point for the Second AP Fund's risk process is the annual ALM study, based on a number of assumptions concerning long-term market growth and risk levels for different asset classes, and which is a key tool in formulating the strategic portfolio.

Three collaborative risk functions

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

Risk budgeting

The Fund's Board of Directors has established the target of a 0.5-percent excess return, over and above the return determined for the strategic portfolio. In generating this return, the board has specified that the active risk (tracking error) in managing the portfolio shall not exceed three percent.

The purpose of the risk budget is to allocate excess return targets and limits for active risk between the Fund's portfolio management teams, to achieve the most effective risk utilization; in other words, to maximize the Fund's information ratio. The idea of a risk budget is to delegate targets and resources among the departments mandates. Within the framework of the respective active-risk mandates, therefore, heads of department are responsible for allocating the return and risk targets among the departments mandates. The target and active risk is defined in the Investment Guidelines for each mandate.

The risk budget is drafted annually. Senior portfolio managers draft a proposal which is presented to the Fund's executive management for approval.

Compliance

Compliance is responsible for ensuring that the legal and ethical aspects are managed correctly, in compliance with current rules and regulations. The main task of the compliance function is to spread awareness throughout the organization of the regulations that, in the broadest sense, are important to the Fund. This can be done in a number of different ways, not least by ensuring that in-house rules, policies and guidelines are established and firmly rooted in the organization. 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.

Risk Management

Risk Management is responsible for the monitoring and analysis of the Fund's financial and operative 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 Fund's risks

The most significant risks to which the Fund may be subjected can be divided into financial and operative risks. The financial risks primarily comprise market risk, credit risk and liquidity 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. In the day-to-day portfolio management process, market risk 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 counterpart 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 counterpart 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. To determine the credit risk, the Fund employs median ratings from rating agencies Standard & Poor's, Moody's and Fitch Ratings. When a rating is available from two institutes only, the lowest rating is selected. If a rating is available from just one institute, the judgement is based on this alone. The Fund also has credit risks in fixed-income funds and non-listed assets (alternative credit funds).

The Fund's counterparty risk is monitored and analysed on a daily basis. Each new counterparty is subject to a credit check, followed by continual evaluation of all current relationships. The purpose and nature of the specific business relationship is always the starting point. As well as the counterparty risk associated with deposits and non-cleared derivatives (OTC derivatives), there is a risk concerning cleared transactions against clearing institutes, although this is minimal. Counterparty risk is limited by means of a Credit Support Annex (CSA) agreement with the counterparty.

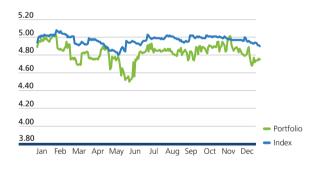
Issuer risk is not limited to the risk that the issuer may become insolvent. Losses often arise long before a declaration of bankruptcy. The Second AP Fund limits issuer risk by establishing

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 different groups of issuers based on credit ratings per security.

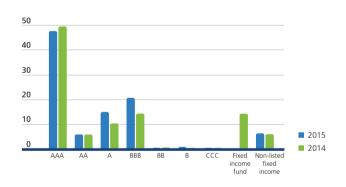
The liquidation risk is minimized by automatically checking the purchase and sale of equities and bonds with reference to the broker/ counterparty. Special attention is paid to possible deviations, which can quickly be corrected. Payment and execution of the transaction is executed simultaneously.

The Second AP Fund manages concentration risk by analysing 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.

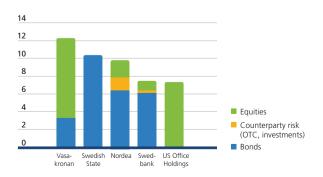
Duration 2015



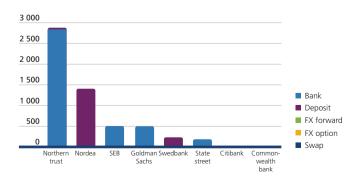
Credit risk, SEK billion



Exposure to issuer, SEK billion



Counterparty risk, SEK million



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 by the Swedish National Pensions Funds Act that requires that 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. The liquidity risk on the liability side, which is very small, consists of derivative debts.

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, incident log, 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.

Since 2014, process analysis has been employed to identify operative risks. A process organization has been designated, with annual follow-up in the form of joint meetings, held twice a year.

The Fund's point of departure in process development is to work continually with these processes and monitor any associated risks, as well as ensuring that operations are conducted in compliance with the agreed processes. Process development requires a working approach that is flexible as well as formally defined.

Portfolio risk 2015

The Second AP Fund reports an increased active risk for the total portfolio in 2015. 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 listed portfolio, measured over twelve months, rose in 2015. At year-end 2015, it was at 0.37 (0.29) percent. The level of active risk noted for asset class Swedish equities rose from 0.8 percent to 1.6 percent and for asset class Swedish fixed-income securities from 0.2 percent to

0.3 percent. Other asset classes noted only minor changes during the year. Covariance between the relative returns on asset classes in the listed portfolio remained low over the year, indicating a good risk spread in the Fund's portfolio.

The volatility of the listed portfolio, calculated over the twelve months, rose to 8.9 percent by year-end.

The information ratio for the total listed portfolio increased somewhat, amounting to 2.4 (1.7) by year-end. The Sharpe ratio for the Fund's listed portfolio declined during the year, due to a weaker absolute return, falling to 0.3 (2.2) by year-end.

The duration calculated for the portfolio of fixed-income investments was 4.8 (4.9) years as per December 31, which corresponds to an approximate decrease of 0.1 years compared with the preceding year. This decrease derives from asset class foreign government bonds, which noted decreased duration of about 0.1 years during 2015. The remaining asset classes noted smaller changes compared to the total fixed-income portfolio. The share of duration that derives from maturity segment 0–10 years has changed from 74 to 76 percent in the past year.

The credit quality of the fixed-income portfolio changed somewhat during the year. The Fund has a triple-A (AAA) share of 49 (48) percent and a triple-B (BBB) share of 21 (14) percent. This rise in the triple-B share is attributable to the Fund's 2015 decision to take home fixed-income emerging-market securities in local currencies from external mandates for in-house management.

The concentration risk between the Second AP Fund's portfolio of listed equities and private equity funds varies somewhat. Private equity funds feature the greatest exposure to North America, 50 (51) percent, while the portfolio of listed equities' greatest exposure is to Europe, 38 (37) percent. They also differ with respect to sector diversification. The largest sector represented in the portfolio of listed equities is Finance, at 24 (24) percent, while the largest sector for private equity funds is IT, at 26 (22) percent.

Fund exposure to Portugal, Ireland, Italy, Greece and Spain in equities and bonds remains limited. Exposure as per December 31 amounted to 1.1 (2.0) percent of the Fund's total capital, Greece's share accounting for 0.15 percent. The Fund's exposure to Russia and the Ukraine is minimal, being 0.4 percent and 0.001 percent respectively of the Fund's total capital. Following a US court ruling, Argentina was prevented from paying interest to bondholders of its restructured debt, issued in US dollars. Consequently, these bonds were declared in technical default

during 2014. The Fund's holdings constitute 0.03 percent of Fund capital and these bonds are still included in the Fund's benchmark index.

A sensitivity analysis of the Fund's Value-at-Risk (VaR) forecast for the total portfolio highlights equities as having the greatest VaR, at SEK 2.4 (1.8) billion. The analysis also shows good diversification in the portfolio.

MSCI's risk system RiskManager3 is used to calculate VaR. VaR is calculated for the Fund's total portfolio, including alternative investments, for a confidence interval of 95 percent over a day, based on historic simulation. The historic period employed is one year, with daily data.

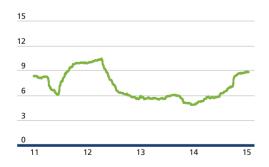
Based on the VaR calculation, there is a 95-percent likelihood that the Second AP Fund will lose no more than SEK 2.9 billion in absolute terms over a day, per year-end.

For asset classes that are classified as alternative investments and that lack daily quoted rates, the Fund employs proxies. The proxies for these asset classes are as follows. For asset class *Private Equity*: S&P Listed Private Equity Index, Bloomberg: SPLPEQTR. For asset class *Real Estate*: Carnegie Real Estate Index, Bloomberg: CRERX, and for *Convertibles*: 50 percent MSCI World/50 percent JP Morgan Global Bond Index.

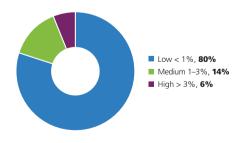
Risk calculated as Value-at-Risk (VaR) for the Second AP Fund's total portfolio

SEK million	2015 VaR (95%,1 day)	2014 VaR (95%,1 day)
Share risk	2 402	1 754
FX risk	1 105	699
Interest risk	196	187
Diversification	-814	-718
Total, Second AP Fund	2 889	1 922

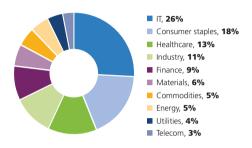
Volatility in listed portfolio past five years, %



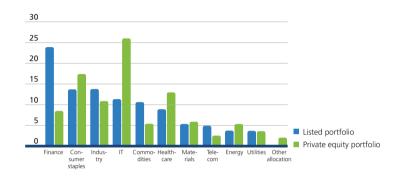
Allocation of active risk, %



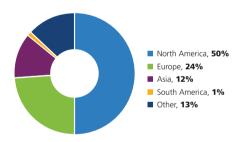
Investments in private equity funds by sector, %



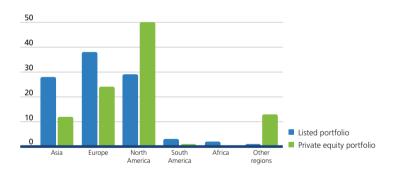
Sector diversification: listed portfolio compared with private equity portfolio 2015, %



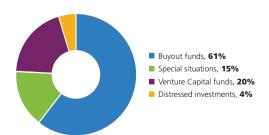
Investments in private equity funds by region, %



Regional diversification: listed portfolio compared with private equity portfolio 2015, %



Original investment commitments in private equity funds, %



FX exposure

The degree of 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. By the end of the year, 30 (24) percent of the Fund's portfolio was exposed in foreign currency. The largest part was the Fund's exposure in USD, HKD and euros. The Fund's hedging policy is determined by the board of directors and is part of the portfolio optimization process. This policy aims to reduce portfolio risk, and a systematic

FX hedging programme is actively implemented. The portfolio's total FX exposure in 2015 has meant a positive net impact on the result, reflecting the steady weakening of the Swedish krona against other currencies. The hedging programme has had a negative impact on the net result. The Fund reported an overall negative result on FX transactions for its total portfolio, including FX hedging (and interest gains/losses on FX contracts), amounting to SEK –0.4 (10.4) billion.

FX exposure 2015 and 2014, equivalents in SEK million

December 31, 2015	USD	EUR	HKD	JPY	INR	BRL	Övr	Total
Equities and participations	69 790	16 785	7 275	8 455	2 322	1 670	36 016	142 313
Bonds and other fixed-income securities	32 974	12 329	_	_	_	2 080	15 793	63 176
Other assets and liabilities, net	-3	374	514	22	1 754	401	911	3 973
Derivative instruments excl. FX derivatives	5	128	_	-5	_	_	_	128
FX derivatives	-79 110	-20 721	-516	-2 840	327	42	-17 772	-120 590
FX exposure, net	23 656	8 895	7 273	5 632	4 403	4 193	34 948	89 000

FX exposure, net	31 090	6 085	4 636	3 996	3 294	2 984	17 075	69 160
FX derivatives	-87 461	-1 348	-24 056	-76	-76	-6 898	-21 649	-141 564
Derivative instruments excl. FX derivatives	743	-1	-42	_	_	-8	-8	684
Other assets and liabilities, net	1 732	65	1 113	_	12	155	851	3 928
Bonds and other fixed-income securities	46 997	_	13 353	_	_	_	4 729	65 079
Equities and participations	69 079	7 369	14 268	4 072	3 358	9 735	33 152	141 033
December 31, 2014	USD	HKD	EUR	KRW	TWD	JPY	Övr	Total

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.

FX exposure, growth since start, %



Statutory limit for FX exposure is 40 percent.

COSTS

Internalization process complete - world-class in-house portfolio management

During the year, the Fund completed the internalization process started in 2012. This has resulted in broad, highly globalized and transaction-intensive portfolio management in-house.

The procurement process to acquire the services of a new custodial bank, initiated jointly with the Third AP Fund in 2014 and which has involved an exchange of insights with the New Zealand Superannuation Fund, was completed during 2015. The change of custodial bank involved an adjustment to the transaction chain: the matching of transactions is now largely conducted by the custodial bank. This change is a consequence of the exchange of insights and the inspiration provided by the abovenamed parties, and is functioning well as part of the internalization process that was completed during the year. In light of the sharp rise in transaction volumes since 2012, it is a real gain to be able to focus more on growth and enhanced efficiency than the day-to-day matching process. Given the success of this collaboration, the Fund considers the prospect of additional strategic collaborative ventures in the administrative field highly likely, with procurement processes forming a key element.

In an increasingly complex investment environment, the management of a portfolio of emerging-market assets in-house has made, and continues to make, demands on broad competence. Changing global factors, such as country-specific regulations and growing geopolitical instability, require ever more stringent control and monitoring of the Fund's flows and positions. For these reasons, a focus area targeted by the Fund in 2015 has been the need to minimize risks in the transaction chain. Continuing development of the portfolio management system during the year has enabled full automation of the transaction flow from portfolio simulation to completion of a transaction.

In line with its diversification strategy, the Fund has established a more global and diversified non-listed portfolio, both with respect to the number of investments and counterparties. To meet the demands of an increased investment volume and expanded administrative requirement, the Fund has focused additional attention on improving the efficiency of in-house processes associated with this type of investment.

Cooperation with the other pension funds

The Second AP Fund is a global player and, over the years, has developed its collaboration with other investors in every part of the world. The Fund places considerable importance on this collaboration with other institutional fund managers, as a means of enhancing and broadening its own competence and as part of the ongoing process of seeking potential partners, internationally as well as in Sweden.



The Fund places considerable importance on collaboration with other institutional fund managers, as a means of enhancing its own competence.

Since 2007, the Second AP Fund has been collaborating with the First, Third and Fourth AP Funds to monitor and analyse the AP Funds' foreign portfolio assets regarding possible infringements of international conventions to which Sweden is a signatory. This process is conducted within the framework of the AP Funds' joint Ethical Council (www.etikradet.se). As well as working together within the Ethical Council, the AP Funds also collaborate on tax, legal, accounting, risk and valuation issues.

Another joint project has been launched in collaboration with the First, Fourth and Seventh AP Funds, to determine the impact of clearing OTC derivatives.

Cost-efficient management

For a fund manager in general, and a global pension fund in particular, determining an appropriate cost level is a complex process. Calculating costs in isolation gives an all too simplistic picture. The costs level should form part of the broad canvas instead of being seen as the primary criterion of valuation. This means adopting a holistic view, involving an assessment of revenue and risks as well as costs. It is cost-efficiency that needs to be in the spotlight.

An established method for measuring and comparing the cost efficiency of pension funds from an international perspective has been developed by CEM (Cost Effectiveness Measurement Inc.). The method enables a comparison that takes into account several factors that have a decisive impact on the overall cost of managing a fund: the volume of assets under management, the degree of assets under active management and external mandate, and the relative allocations for each class of asset.

In the study, a pension fund's costs are compared with those of an international group of fund managers of approximately the same size and with a portfolio of similar composition. The Second AP Fund has participated in CEM's annual benchmark study since 2004 and, according to the latest analysis, which covers 2014, the Second AP Fund's portfolio management continues to be successful and cost-efficient. The level of costs is still considered competitive in 2015 too, although affected by costs incurred in conjunction with the termination of external mandates and the associated cost of building up in-house capacity to manage capital reverting from these mandates. The Second AP Fund's costs level is some 30 percent lower than that reported for the benchmark group, mainly attributable to the fact that the Second AP Fund has a significantly lower percentage of assets under external management. One consequence of the Fund's long-term internalization strategy is that large sums invested in global markets can now be managed cost-efficiently in-house, within the framework of the Fund's quantitative management. For example, the cost of managing equities on emerging markets in-house is substantially lower than when managed under external mandates.

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. The constant interaction between asset classes requires competence and a well-developed approach.

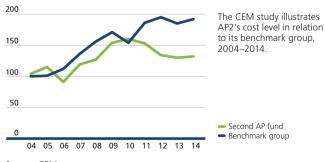
The Second AP Fund employs a floating strategic benchmark index and the actual portfolio is adjusted daily to replicate this. The strength of this management model is that the Fund's total capital is fully exposed on a daily basis.

The costs and revenues attributable to strategic changes in the benchmark index, known as 'transitions', and the ongoing rebalancing of the strategic portfolio, are referred to as implementation effects. In 2015, these implementation effects totalled –0.08 percent.

VAT

As of 2012, the AP Funds became VAT registered. Consequently, VAT is now liable on services charged from outside Sweden. Since the funds are not entitled to claim refunds on VAT paid, this VAT registration has led to a direct increase in the Fund's costs for such services. In 2015, these costs relating to VAT on services charged from outside Sweden amounted to SEK 31 (21) million.

Cost-efficiency comparison with international pension funds 2004–2014, indexing



Source: CEM

Income statement

Amounts in SEK million	Note	Jan-Dec 2015	Jan–Dec 2014
Operating income			
Net interest income	1	1 897	2 948
Dividends received		5 458	4 747
Net result, listed equities and participations	2	3 608	10 437
Net result, non-listed equities and participations	3	3 934	3 081
Net result, fixed-income assets		-3 033	2 916
Net result, derivative instruments		-62	577
Net result, exchange gain/loss		392	10 090
Commission expenses, net	4	-321	-286
Total operating income		11 873	34 510
Operating expenses			
Personnel expenses	5	-126	-118
Other administration expenses	6	-86	-77
Total operating expenses		-212	-195
NET RESULT FOR THE YEAR		11 661	34 315

Balance sheet

Amounts in SEK million	Note	December 31, 2015	December 31, 2014
ASSETS			
Equities and participations			
Listed	7	138 526	147 040
Non-listed	8	49 205	39 782
Bonds and other fixed-income assets	9	105 426	109 451
Derivative instruments	10	2 847	2 360
Cash and bank balances		3 991	4 818
Other assets	11	680	97
Prepaid costs and accrued income	12	1 678	1 540
TOTAL ASSETS		302 353	305 088
FUND CAPITAL AND LIABILITIES			
Liabilities			
Derivative instruments	10	1 297	9 728
Other liabilities	13	163	1 378
Deferred income and accrued expenses	14	269	75
Total liabilities		1 729	11 181
Fund capital	15		
Fund capital at beginning of year		293 907	264 712
Net payments to the national pension system		-4 944	-5 120
Net result for the year		11 661	34 315
Total fund capital		300 624	293 907
TOTAL FUND CAPITAL AND LIABILITIES		302 353	305 088
Pledged assets, contingent liabilities and commitments	16		
Other assets pledged and comparable collateral		900	10 552
Commitments		24 798	21 725

Accounting and valuation principles

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 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 and IFRS 13 information requirement. Full compliance with the IFRS standard would not essentially affect the reported net result and capital assets. The Second AP Fund fulfils the requirements for definition as an investment company in compliance with IFRS 10. Compared with the current IFRS standard, the only significant difference is that no cash flow analyses have been 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 non-listed equities, are reported in the balance sheet as per settlement day, in line with generally accepted market practice.

Net accounting

Financial assets and liabilities are net accounted in the balance sheet when there is a legal right of set-off and an intention to effect a net payment or to liquidate the asset and pay the liability simultaneously.

FX conversion

Transactions in foreign exchange are converted into Swedish kronor at the rate applied on the transaction date. On the balance-sheet 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 non-listed 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 14 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.

Listed 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 listed rates observable on an active market. Commissions paid are taken up as income under Net result, listed equities.

Non-listed 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.

The valuation of non-listed participations 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.

The valuation of non-listed real-estate equities is based on the material value method, in as far as the equity has not been the subject of transactions on a resale market. Deferred tax liabilities relating to holdings in non-listed real-estate companies have been determined at the value applied to the actual property transactions, as distinct from the value reported in the accounts of the real-estate companies.

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 listed rates observable on an active market. In cases where such instruments are not traded on an active market, and where no reliable listed 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 premiums or discounts acquired are accrual accounted over the security's remaining term or until the next adjustment in the interest rate – and are reported as interest income. Changes in value arising from adjustments to interest rates are reported under Net result, fixed-income assets, while changes in value arising from FX gains/losses are reported under Net result, exchange gain/loss.

Derivative instruments

Where derivative instruments are concerned, fair value is based on their listed rates at year-end. In cases where such instruments are not traded on an active market, and where no reliable listed market rates are available, the instrument shall be valued with the support of generally accepted theoretical 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. Changes in value arising from FX gains/losses are reported in the income statement under Net result, exchange gain/loss, while other changes in value are reported under Net result, derivative instruments. 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/or 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 cases where the Fund lacks these rights of disposal, collateral received is reported not in the balance sheet, but separately, under Pledged assets, contingent liabilities and commitments. 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 expenses and fixed fees to external portfolio managers, as well as fixed fees for market-listed 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.

Management fees paid for non-listed equities and participations, 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 expenses.

Operating expenses

All expenses incurred, excluding brokerage commissions, performance-based fees to external portfolio managers and custodial expenses, are reported under Operating expenses. Investments in equipment and in-house developed and externally purchased software are booked on current account.

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.

As of 2012, the Second AP Fund became VAT registered. Consequently, VAT is now liable on services charged outside Sweden. The Fund is therefore not entitled to recover invoiced VAT. The cost of VAT is reported together with the respective cost item in the income statement.

Amounts cited are in millions of kronor (SEK m), unless otherwise stated.

Notes to the income statement and balance sheet

Net interest income/expense Amounts in SEK million Jan.-Dec. 2015 Jan.-Dec. 2014 Interest income Bonds and other fixed-income securities 2 611 2 564 Derivative instruments 239 568 Other interest income 70 70 Total interest income 2 920 3 202 Interest expenses -990 -238 Derivative instruments Other interest expenses -33 -16 Total interest expenses -1 023 -254 2 948 Net interest income/expense 1897

2 Net result, listed equities and part	icipations	
Amounts in SEK million	JanDec. 2015	Jan.–Dec. 2014
Net result, listed equities and participations	3 726	10 535
less brokerage comission	-118	-98
Net result, listed equities and participations	3 608	10 437

Net result, non-listed equities and participations					
Amounts in SEK million	JanDec. 2015	JanDec. 2014			
Capital gains, net	1 780	876			
Unrealized changes in value*	2 154	2 205			
Net result, non-listed equities and participations	3 934	3 081			

^{*} Unrealized changes in value include reimbursed management fees amounting to SEK 200 (221) million.

Amounts in SEK million	JanDec. 2015	JanDec. 2014
External portfolio management fees, listed assets	291	262
External portfolio management fees, non-listed assets	3	5
Other commission expenses including		

27

321

19

286

custodial expenses

Total commission expenses

Commission expenses do not include performance-based expenses. During the year performance-based expenses amounted to SEK 144 (88) million and reduced the net gain for respective asset classes. External portfolio management fees for non-listed 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 2015, a total of SEK 235 (177) million has been paid in management fees for non-listed assets. Of these SEK 232 (172) 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.

Cont. Note 4

Distribution of Fund capital between external mandates and in-house portfolio management as per December 31, 2015, SEK million

Mandate		Average capital under management, 2015	Market value December 31, 2015*	% of Fund capital	External management expense
External discretiona	ry mandates				
Equity mandates					
Active management					
MFS	Global equities	5 255	4 973		
APS	Chinese Series A equities	2 100	2 250		
Cephei	Chinese Series A equities	1 616	1 691		
UBS	Chinese Series A equities	481	496		
Total		9 452	9 410	3	56
Fixed-income mandate	25				
Active management					
Rogge	Global credit mandate	7 048	-		
Standish	Global credit mandate	8 537	-		
Total		15 585	-		17
Total external discret	tionary mandates	25 037	9 410	3	73
Investments in listed	d external funds				
Equity funds		9 945	9 346		
Fixed-income funds		28 961	13 176		
GTAA funds		1 529	1 447		
Total investments in	listed external funds	40 435	23 969	8	218
timberland and farm		16 936	17 951	6	3
	ETS UNDER EXTERNAL MANAGEMENT EXPENSES	82 408	51 330	17	294
In-house manageme	ent mandates				
Listed equities and par	ticipations		112 577		
Fixed-income mandate	ès		96 218		
Cash and bank balance	es		-146		
Non-listed equities in a including subordinated			40 645		
TOTAL CAPITAL ASS MANAGEMENT	ETS UNDER IN-HOUSE		249 294	83	
Other assets and lial	bilities		0		

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

		2015		2014	
Number of employees	Total	Men	Women	Total Men	Women
Average number of employees	67	44	23	62 38	24
Number of employees, December 31	64	42	22	63 39	24
Number of persons in Executive Management Group, December 31	7	5	2	7 5	2
Personnel costs in SEK k, 2015	Salaries and remuneration	Variable remuneration	Pension costs	Social costs incl. special employer's contribution	Total
Chair of the Board	115		_	37	152
CEO	3 495		1 474	1 479	6 448
Board of Directors, excluding Chair	505		-	136	641
Executive Management Group, excl. CEO					
Chief Investment Officer (CIO)	2 974		780	1 157	4 911
Head of IT, Business and Financial Control	1 586		687	665	2 938
Chief Investment Strategist (CIS)	2 400		782	944	4 126
General Counsel	2 233		709	874	3 816
Head of Communication & HR	1 734		694	743	3 171
Head of Performance & Risk Management	1 644		540	647	2 831
Other employees	48 954	3 950	20 145	21 186	94 235
Total	65 640	3 950	25 811	27 868	123 269
Other personnel costs					3 024
Total personnel costs					126 293
Personnel costs in SEK k, 2014	Salaries and remuneration	Variable remunera- tion	Pension costs	Social costs incl. special employer's contribution	Total
Chair of the Board	115	_	_	37	152
CEO	3 211		1 356	1 359	5 926
Board of Directors, excluding Chair	479	_	-	150	629
Executive Management Group excl. CEO					
•	2 727	_	818	1 076	4 621
Chief Investment Officer (CIO)		_	568	617	2 679
, ,	1 494				
Head of IT, Business and Financial Control	1 494 2 218	_	795	904	3 917
Head of IT, Business and Financial Control Chief Investment Strategist (CIS)			795 615	904 825	
Head of IT, Business and Financial Control Chief Investment Strategist (CIS) General Counsel	2 218	-			3 535
Head of IT, Business and Financial Control Chief Investment Strategist (CIS) General Counsel Head of Communication & HR	2 218 2 095	-	615	825	3 535 2 961
Chief Investment Officer (CIO) Head of IT, Business and Financial Control Chief Investment Strategist (CIS) General Counsel Head of Communication & HR Head of Performance & Risk Management Other employees	2 218 2 095 1 570	- - -	615 694	825 697	3 917 3 535 2 961 2 687 87 772
Head of IT, Business and Financial Control Chief Investment Strategist (CIS) General Counsel Head of Communication & HR Head of Performance & Risk Management	2 218 2 095 1 570 1 553	- - -	615 694 520	825 697 614	3 535 2 961 2 687

Board of Directors

Total personnel costs

Fees and other remuneration paid to the Board are determined by the Swedish Government. This remuneration is paid yearly in the following amounts: to the Chair, SEK 100 000; to the Vice Chair, SEK 75 000 and to each of the other directors, SEK 50 000. The Swedish Government has determined that remuneration totalling SEK 100 000 may be paid for committee work carried out by board members. No remuneration has been paid to board members for their work on the Remuneration Committee. Work on the Risk Committee is remunerated as follows: SEK 30 000 to the Chair and SEK 25 000 to the other directors. Work on the Audit Committee is remunerated as follows: SEK 20 000 to the Chair and SEK 15 000 to the other directors.

Other directorships held by Members of the Board See page 78.

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 30 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 75 (67) k.

117 891

Executive Management Group

In addition to salaries, other remuneration and pension contributions, the Executive Management Group has received benefits as per the following disclosure: Chief Investment Officer (CIO), SEK 106 (66) k; Head of IT, Business

and Financial Control, SEK 0 (30) k; Chief Investment Strategist (CIS), SEK 1 (45) k; General Counsel, SEK 0 (55) k; Head of Communication & HR, SEK 39 (62) k and Head of Performance and Risk Management, SEK 1 (1) k. 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. Two 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 Swedish Government guidelines. The Second AP Fund's incentive programme comprises all staff apart from the CEO and other members of the Executive Management. This incentive programme means that all those covered are entitled to a maximum of two months' salary in variable remuneration. The programme is linked 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 remuneration paid to the Board of Directors is determined by the Swedish Government. The Board determines the CEO's salary and the guidelines applied in remunerating the Fund's senior executives.

Government guidelines

For more than a decade, the Second AP Fund has participated in the Towers Watson salary and benefits survey. The purpose of this survey is to report on the market rate for salaries and benefits paid to different staff categories, based on data supplied by the participating companies. The Second AP Fund has used this statistical data to compare remuneration levels for all its employees. In 2015, the levels of remuneration provided by the Fund were compared with some 15 other private and state players in the financial sector, including Swedish pension fund AMF, the other AP Funds and Kammarkollegiet (Swedish Legal, Financial and Administrative Services Agency). The Fund's remuneration policy is based on the idea that the level of remuneration should be close to the median for the reference group employed in the Towers Watson salary and benefits survey.

The Board considers that the levels of remuneration paid to senior executives, as well as to other members of the Fund's staff, are reasonable, well balanced, competitive and appropriate, featuring clearly defined upper limits and contributing to solid business ethics and a healthy organizational culture. These levels of remuneration are not salary-inflationary in relation to comparable institutions, but are moderate in character and fall well within the parameters prescribed by the Board concerning staff remuneration. The Board is satisfied that the Fund is in compliance with Swedish Government guidelines on remuneration, apart from the above mentioned exceptions regarding the period of notice. Nevertheless, the combined costs incurred in connection with a dismissal are well within the limits defined in the Swedish Government guidelines. More information at www.ap2.se

Other

To comply with GRI (Global Reporting Initiative) regulations, companies shall report the degree to which trade unions are free to operate and whether there are any employees of less than 18 years of age. In compliance with Swedish legislation, trade unions are free to operate at the Second AP Fund. The Fund has no employees under the age of 18.

Other administrative expenses	S	
Amounts in SEK million	JanDec. 2015	JanDec. 2014
Rental expenses	5	5
Information and IT expenses	58	46
Purchased services	11	14
Other expenses	12	12
Total other administrative		
expenses	86	77
Fees to auditors		
Audit assignments		
PwC/EY	0,61	0,60
Accounting activities in addition to audit assignments		
PwC/ EY	-	0,14
Total remuneration to PwC/EY	0,61	0,74

Equities and participations, listed		
Amounts in SEK million	December 31, 2015	December 31, 2014
Swedish equities	29 784	30 992
Foreign equities	97 947	104 746
Participations in foreign funds*	10 795	11 302
Total listed equities and participations	138 526	147 040
* of which participations in mixed funds	1 449	1 409

Like others engaged in long-term asset management, the Second AP Fund is also active in securities lending. This lending concerns foreign equities and is to counterparties that have high credit ratings and that provide guarantees corresponding to about 105 percent of the market value of the pledged securities.

In 2015, total income from pledged securities amounted to SEK 24 million. This income made a positive contribution to the Fund's relative return and is reported as interest income in the income statement. The guarantees secured for securities on loan are reported in Note 16.

The 20 largest Swedish and foreign shareholdings, by value, are listed on pages 72–74.

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

Equities and participations, non-listed		
Amounts in SEK million	December 31, 2015	December 31, 2014
Equities in Swedish associated companies	15 520	14 791
Equities in foreign associated companies	15 261	8 565
Equities in other non-listed Swedish companies	1	9
Equities in other non-listed foreign companies	18 423	16 417
Total non-listed equities and participations	49 205	39 782

When determining the share of non-listed holdings in compliance with the statutory five-percent limit, the calculated share was just under five percent on December 31, 2015. The share of listed securities in three private equity funds exceed 50 percent, and are therefore not defined as non-listed assets.

Cont. Note 8								
Amounts in SEK million	Corp. Reg.	Registered office	No. of equi- ties	Participation right capital/votes, %	Dec. 31, 2015 Fair value	Dec. 31, 2014 Fair value	Equity	Result
Swedish equities and participations, associated and subsidiary companies								
Cityhold Property AB	556845-8631	Stockholm	4 105 066	50	63	2 130	4 205*	601*
NS Holding AB	556594-3999	Sundsvall	1 819 884	50	6 475	5 712	10 407*	723*
Vasakronan Holding AB	556650-4196	Stockholm	1 000 000	25	8 982	6 949	29 245**	10 120**
Foreign equities and participa- tions, associated and subsidiary companies								
Chaptwo S.à.r.l.		Luxemburg		100	3 239	-		
Molpus Nordic Woodlands		USA		100	190	-		
U.S. Office Holdings L.P.		USA		41	4 532	3 910		
U.S. Core Office APTWO L.P. ***		USA		99	2 758	697		
TIAA-CREF Global Agriculture LLC		USA		23	3 288	3 530		
TIAA-CREF Global Agriculture II LLC		USA		25	1 254	428		

^{*} Refers to figures published as per December 31, 2014.

** Refers to figures published as per December 31, 2015.

*** Holding company with a 41-percent participation in US Core Office Holding L.P. and minority participations in other properties, in partnership with NPS and Tishman Speyer.

Amounts in SEK million	Registered office	Capital participation, %	Dec. 31 2015 Acquisition value	Dec. 31 2014 Acquisition value
Other non-listed Swedish equities and participations				
EQT Northern Europe KB	Stockholm	1	53	56
Swedstart Life Science KB	Stockholm	5	4	7
Swedstart Tech KB	Stockholm	3	3	7
Five largest shareholdings in other non-listed foreign equit	ies and participations			
Pathway Private Equity Fund IXC	USA	99	1 010	906
Pathway Private Equity Fund IXB	USA	99	935	1 031
Teays River Investments LLC	USA	7	665	650
Pathway Private Equity Fund IX	USA	99	500	567
Nordic Capital VII	Great Britain	1	360	380

 $A\ complete\ list\ of\ Swedish\ and\ foreign\ non-listed\ shareholdings\ is\ available\ on\ the\ Fund's\ website\ at\ www.ap2.se$

Bonds and other fixed-income securities

	Dec. 31 2015	Dec. 31 2014
Amounts in SEK million	Fair value	Fair value
Swedish State	7 683	10 123
Swedish municipalities	145	96
Swedish mortgage institutions	19 712	18 039
Other Swedish issuers		
Financial companies	10 520	10 520
Non-financial companies	3 140	3 680
Foreign states	21 695	9 297
Other foreign issuers	42 527	57 694
Deposits	4	2
Total	105 426	109 451
Other bonds	89 917	80 654
Non-listed loans	3 000	3 681
Participations in foreign fixed-income funds	12 505	25 114
Deposits	4	2
Total	105 426	109 451

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Derivative instruments

	Dec. 31 2	015	Dec. 31 2014	
Amounts in SEK million	Fair value, positive	Fair value, negative	Fair value, positive	Fair value, negative
Equities-linked instruments				
Options, held	-	-	57	_
Options, pledged	-	_	_	85
Forward contracts	24	21	12	96
Total	24	21	69	181
of which cleared	24	21	69	181
Index-linked instruments				
FRA/futures	38	26	66	63
Swaps	36	_	1	17
Total	74	26	67	80
of which cleared	38	18	66	63
Currency-linked instruments				
Options, held	6	_	57	_
Options, pledged	-	3	_	97
Futures	2 743	1 247	2 167	9 370
Total	2 749	1 250	2 224	9 467
of which cleared	-	-	-	-
Total derivative instruments	2 847	1 297	2 360	9 728

All derivatives with negative fair values have a maturity of less than twelve months. Pledged put options are part of the Fund's strategy for reducing total risk. The net position of put options features a limit on maximum loss. In the case of currency options sold, the Fund is always required to meet the commitments specified in the options contract, i.e. once the Fund has sold a currency option, the buyer is entitled to utilize the option, whether favourable or not in comparison to the current rate. Where other put options are concerned, the Fund is not subject to any special delivery requirements.

Use of derivative instruments

Derivative instruments are the primary means of hedging the Fund's portfolios. They also contribute to more efficient portfolio 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 2015, 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 interestrate 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, as well as alternative risk premium 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.

1

Other assets

Amounts in SEK million	December 31, 2015	December 31, 2014
Incoming payments, unsettled transactions	674	92
Other receivables	6	5
Total	680	97

2 Prepa

Prepaid expenses and accrued income

Amounts in SEK million	December 31, 2015	December 31, 2014
Interest income accrued	1 418	1 338
Dividends accrued	73	121
Restitutions	170	63
Other prepaid expenses and accrued income	17	18
Total	1 678	1 540

Other liabil

Amounts in SEK million	December 31, 2015	December 31, 2014
Outgoing payments, unsettled transactions	136	1 361
Accounts payable	14	7
Other liabilities	13	10
Total	163	1 378

Deferred income and accrued expenses

Amounts in SEK million	December 31, 2015	December 31, 2014
Accrued external management fees	46	14
Accrued interest expenses on currency forwards	194	34
Other accrued expenses	29	27
Total	269	75

Fund capita

Amounts in SEK million	December 31, 2015	December 31, 2014
Opening Fund capital	293 907	264 712
Net inflows to the national pension system		
Pension contributions received	61 373	58 880
Pension disbursements to the Swedish Pensions Agency	-66 141	-63 775
Transfer of pension entitlements to EC	-2	-2
Adjustment of pension entitlements re. previous years	2	1
Administration contribution to the Swedish Pensions Agency	-176	-224
Total payments to the national pension system, net	-4 944	-5 120
Net result for the year	11 661	34 315
Closing Fund capital	300 624	293 907

Pledged assets, contingent liabilities and commitments

Amounts in SEK million	December 31, 2015	December 31, 2014
Other pledged assets and comparable collateral		
Securities on loan for which guarantees have been secured in the form of securities and cash*	559	9 724
Securities pledged in connection with exchange-cleared derivatives	269	828
Securities pledged in connection with OTC-derivatives (CSA/Credit Support Annex agreement)	72	_
Commitments		
Commitments regarding future payments, non-listed holdings	20 298	17 211
Subscription commitments, certificates	4 500	4 500
Underwriting commitment guarantee	-	14

^{*} Guarantees secured for securities on loan: SEK 598 (10 413) million.

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Financial instruments, price and valuation hierarchy

Valuation of Fund capital - Market-listed assets

The great majority of the Fund's assets are market-listed, which means that they are traded on an active market at rates that reflect actual and regular market transactions. The Fund's market-listed assets are valued on a daily basis at listed 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 exchange forwards 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 2015, the Fund's portfolios contained only a few outstanding structured OTC derivatives.

At times when the market lacks the liquidity necessary for market-listed 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 listed by alternative trading centres shall be taken into consideration. In such instances, each individual security is appraised separately.

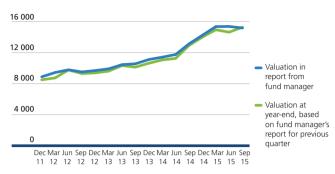
Valuation of Fund capital – Alternative investments

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-listed assets consist of non-listed real-estate assets (about ten percent of the total portfolio), private equity funds (almost five percent of the total portfolio) and OTC derivatives.

Cont. Note 17

Validation of valuations in private equity, SEK million



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.

Private equity funds are appraised in accordance with the IPEV (International Private Equity and Venture Capital Valuation) Guidelines or equivalent valuation principles and shall first and foremost be based on transactions with third parties, although other valuation methods may be used.

In calculating fair market values, private equity funds rely mainly on discounted cash flows, the material value method and multiple valuation. 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 2015 were based mainly on an appraisal of private equity funds made on September 30, 2015, 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 December 2011 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. A third-party assessment of market growth during the fourth quarter of 2015 confirms that private equity funds in the Fund's key geographic markets enjoyed continuing positive growth during the final quarter.

Fair value

Fair value is defined as the amount for which an asset could be sold or a debt settled by means of an orderly transaction between market players on the valuation date. 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.

Fair value hierarchy, SEK million

		December 31 2015			
	Level 1	Level 2	Level 3	Total fair value	
Equities and participations, listed	127 508	11 018	_	138 526	
Equities and participations, non-listed	-	_	49 205	49 205	
Bonds and other fixed-income assets	89 917	12 509	3 000	105 426	
Derivative assets	62	2 785	-	2 847	
Derivative liabilities	-39	-1 258	-	-1 297	
Financial assets and liabili- ties, valued at fair value	217 448	25 054	52 205	294 707*	

		December 31 2014				
	Level 1	Level 2	Level 3	Total fair value		
Equities and participations, listed	135 714	11 302	24	147 040		
Equities and participations, non-listed	_	_	39 782	39 782		
Bonds and other fixed-income assets	80 594	25 537	3 320	109 451		
Derivative assets	218	2 142	_	2 360		
Derivative liabilities	-332	-9 396	_	-9 728		
Financial assets and liabili-	216 194	29 585	43 126	288 905*		

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

Level 1: Financial instruments traded on an active market. The market is deemed active if it features listed rates that are subject to regular update at a higher frequency than once weekly, and if these rates are employed unadjusted at closing.

Level 2: Financial instruments traded on a market not deemed as active, but that features listed rates that are employed unadjusted at closing or observable in-data that is regularly updated for indirect valuation based on generally accepted

Level 3: Financial instruments that are valued on the basis of a not insignificant amount of non-observable data, or that otherwise cannot be classified as Level 1 or Level 2.

Level 3 primarily features the Fund's holdings in private equity funds and non-listed real estate, where the appraisal is not based on observable market data. Changes in value are primarily reported in the income statement under Net result, non-listed equities and participations.

Change during 2015 in Level 3, SEK million

	Equities and participations, listed	Equities and participations, non-listed	Bonds and other fixed-income assets	Total
Value brought forward, January 2015	23	39 783	3 320	43 126
Purchases	14	5 353	-	5 367
Divestments	_	-	-318	-318
Changes in value	-37	4 069	-2	4 030
Reclassifications	_	_	_	_
Total	-	49 205	3 000	52 205

100 percent of the changes in value are unrealized as per year-end.

Cont. Note 17 Change during 2014 in Level 3, SEK million Equities and Equities and participations. Bonds and other participations, listed fixed-income assets non-listed Total Value brought forward, January 2014 3 005 33 567 54 30 508 Purchases 1 799 310 2 109 Divestments Changes in value -31 7 476 5 7 450 Reclassifications 23 Total 39 783 3 3 2 0 43 126

100 percent of the changes in value are unrealized as per year-end.

Sensitivity analysis, non-listed assets

Timberland and farmland

Growth in the value of timberland and farmland is largely determined by the demand for forest and agricultural raw materials. The value of timberland and farmland can nevertheless vary considerably within the same region, as can the correlation with raw material prices. The operational focus of the agricultural asset, the quality of the land, the size of the forest assets, the long-term felling plan, the infrastructure, topography and various macroeconomic factors are all parameters that have a significant impact on the value of the asset.

In the long run, the value of timberland and farmland is mainly determined by the anticipated income it can generate, combined with the effect of interest levels. The value of timberland and farmland tends to rise when interest rates are low and raw material prices are high. Conversely, the value of land tends to fall as interest rates rise, a consequence of the discounting of anticipated future income from cultivation of the land. Higher interest rates lead to a decline in the price of forest and agricultural products, which means reduced revenues for operators and, eventually, a reduction in the value of the land. This said, however, the grain price needs to fall fairly dramatically over an extended period to have any really significant effect on land values.

Private-equity funds

The valuations of the individual companies in the portfolio of a private equity fund are determined largely by the following factors:

- \bullet profit growth in the company, improved sales and <code>EBITDA</code>
- multiple expansion, improved margins
- reduced debt
- increased market shares, development of products and services (geographic expansion, technical advances, unique/new range of products/ services).

The guidelines pertaining to the valuation of fair value for this type of investment feature valuation models which in many cases are linked to market-listed companies in relevant benchmark groups. Consequently, the valuation of these portfolio companies is affected by the publicly-traded market, but not to the same extent, and always with a three-month shift in time. In the Second AP Fund's experience, most fund managers generally adopt a conservative approach in their valuations, something that is especially apparent in markets that feature rapid and sharp rises in share prices.

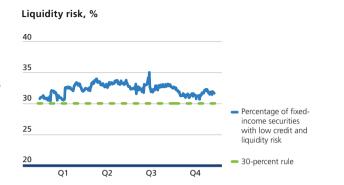
Traditional real estate

Although many different factors can affect the performance and financial status of real-estate companies, the growth in the value of the companies' real estate portfolios constitutes the greatest risk and has the greatest impact on their net result. The market value of real estate is affected by changed assumptions in rental and vacancy levels, as well as operating costs and dividend yield requirements. The assumptions made when making these valuations are based on the economic health of the markets where these properties are located. Economic growth is assumed to generate increased demand for commercial premises, thereby causing a decline in vacant leases and creating opportunities to increase market rents. The single most important factor is the dividend yield requirement. Concerning the Second AP Fund's holdings in traditional real-estate companies, the combined effect on the Fund's share in profits of a planned change in the direct yield requirement of +/- 0.25% on companies' reported pre-tax results is estimated at SEK -2.2 billion and SEK +2.4 billion respectively.

Financial risks

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) and that no more than five percent of the Fund's total assets may be invested in private-equity funds. During 2015, the Fund's share in securities with a low credit and liquidity risk was around 31–33 percent. By year-end, its share of non-listed assets was 5.0 percent. The liquidity risk on the liability side is very limited, consisting of derivative liabilities.

For further risk data, see "Controlled increased risk", pages 47–52.



Financial assets and liabilities net accounted in balance sheet or subject to right of set-off

Dec. 31, 2015				Amount not net-acc in balance shee			Total in Other* balance sheet	
	Gross amount	Net-accounted amount in balance sheet	Net amount in balance sheet	Set-off of financial instruments per agreement	Collateral received	Net amount post offset		
ASSETS								
Derivatives	2 785	_	2 785	-654	-191	1 940	62	2 847
Total	2 785	-	2 785	-654	-191	1 940	62	2 847
LIABILITIES								
Derivatives	1 250	_	1 250	-654	-72	524	47	1 297
Total	1 250	_	1 250	-654	-72	524	47	1 297

Dec. 31, 2014				Amount not net-acc				
	Gross amount		Net amount in balance sheet	Set-off of financial instruments per agreement	Collateral received	Net amount post offset	Other*	Total in balance sheet
ASSETS								
Derivatives	2 225	_	2 225	-777	_	1 448	135	2 360
Total	2 225	_	2 225	-777	-	1 448	135	2 360
LIABILITIES								
Derivatives	9 484	_	9 484	-777	_	8 707	244	9 728
Total	9 484	_	9 484	-777	-	8 707	244	9 728

 $[\]ensuremath{^{\star}}$ Other instruments in the balance sheet that are not subject to right of set-off.

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Related parties

This note is intended to clarify how the Second AP Fund's result and financial position has been affected by transactions and accounts outstanding, including commitments, with related parties in compliance with the definitions cited in IAS (International Accounting Standard) 24, "Related Party Disclosures".

Those defined as related parties to the Second AP Fund are companies in which the Fund controls at least 20 percent of the voting rights (see associated companies, note 8), as well as the Fund's board members and executive management. Concerning salaries and remuneration to the Second AP Fund's board members and executive management see note 5.

Amounts in SFK million	Dec. 31 2015	Dec. 31 2014
Amounts in SEX million	Dec. 31 2013	Dec. 51 2014
Related parties, voting rights		
Vasakronan Holding AB, 25%		
Interest income	215	233
Shareholder loan	3 000	3 000
Commitment on Vasakronan's behalf to purchase commercial paper in the company, on each occasion, to a maximum combined liquid amount of	4 500	4 500
Chaptwo S.à.r.l., 100%		
Shareholders' contribution	4	_
Investment commitment	2 229	_
Cityhold Property AB, 50%		
Interest income	19	9
Shareholder loan (repaid in 2015)	_	681

The administration report, income statement, balance sheet and notes for 2015 have been approved by the Board of Directors.

Gothenburg, February 23, 2016

Marie S. Arwidson <i>Chair</i>	Sven Björkman <i>Vice Chair</i>	Ola Alfredsson		
Jeanette Hauff	Ole Settergren	Johnny Capor		
Kristina Mårtensson	Ulrika Boëthius	Christer Käck		

Our audit report was submitted on February 23, 2016

Sussanne Sundvall
Authorized Public Accountant
Appointed by the Swedish Government

Peter Nilsson
Authorized Public Accountant
Appointed by the Swedish Government

Auditors' report

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 2015. The annual accounts of the Fund are included in the printed version of this document on pages 37–70.

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 fund'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.

Opinion

In our opinion, the annual accounts have been prepared in accordance with the Swedish National Pension Funds Act and present fairly, in all

material respects, the financial position of the Second Swedish National Pension Fund as of 31 December, 2015 and of its financial results for the year then ended in accordance with the Swedish National Pension Funds Act. The administration report is consistent with the other parts of the annual accounts

We, therefore, recommend the income statement and balance sheet to be adopted.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts, we have also audited the inventory of the assets managed by the Second Swedish National Pension Fund. We have also audited if there are any criticisms against the Board of Directors' and the Managing Director's administration of the Second Swedish National Pension Fund for the year 2015.

Responsibilities of the Board of Directors and Managing Director The Board of Directors and the Managing Director are responsible for the annual accounts, and for administration of the Fund's assets according to the Swedish National Pension Funds Act.

Auditor's responsibility

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

As a basis for our opinion on the inventory of the assets, we have audited the Fund's inventory and a selection of supporting documents.

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 Fund 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.

Opinion

The audit has not given rise to any criticisms regarding the inventory of the assets or otherwise regarding the administration.

Gothenburg, February 23, 2016

Sussanne Sundvall
Authorized Public Accountant
Appointed by the Swedish Government

Peter Nilsson
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, %	No. of equities	Market value, SEK m	Share of voting rights, %	Sector
Nordea Bank	0.52	21 049 182	1 964	0.52	Financials
					Consumer
Hennes Mauritz B	0.38	6 339 083	1 915	0.19	discretionary
Ericsson (LM) B	0.51	16 876 822	1 389	0.30	IT
Investor B	0.56	4 269 375	1 335	0.12	Financials
Investor A	0.00	38 110	12	0.01	Financials
Unibet	5.19	1 492 731	1 290	5.19	Consumer discretionary
Swedish Match	2.15	4 225 190	1 268	2.15	Consumer discretionary
SEB A	0.63	13 837 354	1 237	0.64	Financials
Swedbank A	0.53	5 977 069	1 118	0.53	Financials
Tele2 B	2.88	13 035 163	1 105	2.05	Telecoms
SCA Sv Cellulosa B	0.63	4 470 369	1 102	0.34	Consumer discretionary
SCA Sv Cellulosa A	0.03	207 574	51	0.16	Consumer discretionary
Assa Abloy B	0.55	5 907 107	1 051	0.47	Industrials
Hexagon B	0.88	3 163 179	996	0.63	IT
Atlas Copco A	0.34	4 145 834	864	0.47	Industrials
Atlas Copco B	0.15	1 817 123	355	0.02	Industrials
Volvo B	0.46	9 785 516	774	0.15	Industrials
Volvo A	0.05	1 003 009	81	0.15	Industrials
Autoliv	0.42	681 667	731	0.42	Consumer discretionary
Fastighets AB Balder B	1.25	2 215 766	462	0.80	Financials
Getinge B	0.86	2 049 910	456	0.54	Healthcare
Trelleborg B	1.01	2 731 634	450	0.52	Industrials
Fingerprint Cards B	1.12	709 866	420	0.96	IT
Skanska B	0.60	2 502 943	412	0.42	Industrials

^{*} The above table lists the Second AP Fund's 20 largest holdings in Swedish equities, by worth.

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's holdings in unit trusts

Name	No. of equities, participations	Fair value, SEK m
GAM FCM Cat Bond Inst Initial Series	2 759 577	3 307
Babson Capital	2 922 732	2 337
Genesis Emerging Markets Class A	5 475 561	2 167
Ares Strategic Investment Partners IV	250 000 000	2 142
Generation IM Global Equity A Shares LTA20 090401	884 047	2 091
AQR Merger Arbitrage fund	1 952 820	1 727
Bridgewater GTAA Fond	75 115	1 373
Generation IM Global Equity Fund Class I 20071201	567 016	1 369
Elementum Zephyrus Total Return Cat Bond	123 931	1 108
CVC Credit Partners	1 000 000	1 009
CS Iris S Fund Ltd.	115 143	983
AQR Emerging Equities Fund, L.P.	1 070 000	812
Generation IM Global Equity Fund Class I 20090401	286 502	696
GSO Global Dynamic Credit Feeder Fund Ireland A	752 979	633
AQR Opportunis Convertible Arbitrage Offshore Fund	726 485	610
Generation IM Asia Fund	480 371	485
MG Lion Credt Opp Fund XIV – Series 1 Share Class	39 000	369
Bridgewater GTAA Fond Major Market 1100-031	5 655	76
GAM FCM Cat Bond 2015 series 7	2 039	2
GAM FCM Cat Bond Inc. Institutional 2015 series 10	2 075	2
GAM FCM Cat Bond 2015 series 4	1 977	2
GAM FCM Cat Bond Inc. Institutional 2015 series 1	1 322	1
State Street Short Liquidity Fund	181 441	0

The Second AP Fund's 20 largest foreign shareholdings*

Company name	No. of equities	Market value, SEK m	Sector
Nestlé	761 501	487	Consumer discretionary
Samsung Electronics Co Ltd	52 214	473	IT
Taiwan Semiconductor Manufacturing Co Ltd	12 332 000	453	IT
Tencent Holdings Ltd	2 569 100	426	IT
Johnson & Johnson	454 613	394	Healthcare
AstraZeneca Plc Sek	656 766	380	Healthcare
AstraZeneca	56 838	33	Healthcare
AT&T	1 161 100	337	Telecoms
Procter Gamble	501 600	336	Consumer discretionary
Verizon Communications	820 900	320	Telecoms
Pepsico	376 500	317	Consumer discretionary
China Mobile	3 200 500	305	Telecoms
McDonald's	304 598	303	Consumer discretionary
China Construction Bank	50 769 000	293	Financials
Exxon Mobil	431 600	284	Energi
General Mills	557 400	271	Consumer discretionary
Duke Energy Holding	432 100	260	Commodities
Visa Inc	395 400	259	IT
Automatic Data Process	361 100	258	IT
Autozone	39 776	249	Consumer discretionary
Intesa Sanpaolo Spa	5 455 897	154	Financials
Intesa Sanpaolo Spa	3 973 966	103	Financials

^{*} The above table lists the Second AP Fund's 20 largest holdings in foreign equities, by worth.

The Fund's capital shares and voting rights in the foreign companies listed in the above table in no instance exceed 0.24 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
Nordea Hypotek AB	2 857
Swedish Government 1047	2 578
Stadshypotek AB	2 434
Stadshypotek AB SHBASS	2 100
Skandinaviska Enskilda Banken SEB	2 017

Global government bonds, five largest holdings

Bond	Fair value, SEK m
European BK Recon & Development	255
European Invt BK EIB 1	242
Spain Gov	227
UBS AG London	212
Exp-Imp BK Korea	211

Global credits, five largest holdings

Bond	Fair value, SEK m
Exxon Mobil Corp	191
Abbvie	163
Bank of America Corp	137
BNP Paribas	132
Conti-Gummi Financials	129

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

Governance report

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

The Code sets 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 AP Funds.

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 Chair and Vice Chair 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 2015, the Swedish Government decided on a new Board, involving the following changes: Lenita Granlund left the Board of Directors and Kristina Mårtensson 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 income statement and balance sheet for 2015 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 Chair, SEK 75 000 for the Vice Chair and SEK 50 000 for the other Members of the Board. The Government has determined that payments amounting to SEK 100 000 in total may be made for committee work. No fees have been paid for work conducted by Board Members on the Remuneration Committee. For work on the Risk Committee, remuneration has been paid to the Chairman in an amount of SEK 30 000 and to individual Members in amounts of SEK 25 000. For work on the Audit Committee, remuneration has been paid in an amount of SEK 20 000 to the Chair and in amounts of SEK 15 000 to individual Members.

Board Member	Remuneration Committee	Risk Committee	Audit Committee	Attendance/ total meetings	Comments
Marie S. Arwidson	Χ		Χ	7/7	
Sven Björkman	Х	X		7/7	
Jeanette Hauff		X		6/7	
Ola Alfredsson				7/7	
Ole Settergren				6/7	
Lenita Granlund				1/3	Until May
Ulrika Boëthius				5/7	
Christer Käck				7/7	
Johnny Capor			X	7/7	
Kristina Mårtensson				4/4	From June

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 ordinary meetings and one extraordinary meeting. One of longer duration held in October addressed broad strategic issues, with special emphasis on investment strategy, in particular that of investment in emerging markets. 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 4.5 percent over the long term.

Strategic portfolio

A new strategic portfolio has been approved for 2016.

Discussion about performance, governance issues and costs
The Fund's management performance is reviewed at every
Board meeting. The Board regularly discusses fundamental sustainability and 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 include decisions concerning the adoption of the year-end accounts, the budget, business plan and strategic portfolio.

Board committees

The Board has established a Remuneration Committee. The Remuneration Committee consists of the Fund's Chair and Vice Chair. 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. Swedish Government guidelines on terms of employment for AP Fund employees are monitored and checked against the Fund's own guidelines and to ensure their correct implementation. Decisions reached by the Remuneration Committee are submitted for consideration by the Board at its next meeting.

The Board has established a Risk Committee. The Risk Committee has been established as an advisory, supervisory and preparatory body for the Board concerning the Fund's risk control and risk management activities. The Risk Committee comprises two Members of the Board. The items placed before the Committee for consideration are presented by the Fund's CEO and the Head of Performance and Risk Management.

The Risk Committee is not authorized 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 on no way limited by the establishment of the Risk Committee or its duties. The operations of the Committee, which meets at least six times a year, are conducted according to an agenda determined by the Board on an annual basis. During 2015, among other activities, the Risk Committee has reviewed developments concerning the Fund's financial and operative risks, as well as reviewing its alternative investments. Judgements concerning the interpretation of regulations have also been discussed. The Fund's latest risk status was also presented and discussed at each of these meetings.

The Board has established an Audit Committee. The Audit Committee has been established as an advisory, supervisory and preparatory body for the Board in the areas of financial

reporting, auditing, internal control and external auditing. The Audit Committee comprises two Members of the Board. The items placed before the Committee for consideration are presented by the Fund's CEO, the Head of IT, Business Control and Accounts, and the Chief Financial Officer (CFO), as well as the Fund's auditors. The Audit Committee is not authorized 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 on no way limited by the establishment of the Audit Committee or its duties.

The Audit Committee has met four times during 2015, one meeting being held jointly with the Board's Risk Committee for the annual review of the Fund's progress on operative risk. During the year, the work of the Committee has concentrated on the Fund's implementation of a new custodial bank, issues related to investments in non-listed assets, the ongoing work on operative risks and reporting by and the conducting of discussions with the Fund's new auditors.

Evaluation of Board performance

The performance of the Board is subject to annual evaluation. This evaluation, which at year-end 2014 was conducted in the form of a questionnaire, was deliberated by the Board both at its April meeting and at the longer strategy meeting in October. Considerable emphasis is placed on continually developing the work of the Board, which already functions well, as well as collaboration with the Fund's executive management.

Audit

The Second AP Fund's auditors are appointed by the Swedish Government. The current mandate, which came into effect on June 1, 2015, is shared by Sussanne Sundvall and Peter Nilsson from PwC. PwC is also tasked with conducting the audits of the other AP Funds, and Sussanne Sundvall has furthermore been appointed to coordinate the audits of all AP Funds. This mandate applies until adoption of the Fund's income statement and balance sheet for 2015.

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 and management administration, as well as 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 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 risk reports and analyses. Reporting to the Fund's executive management is conducted on a daily basis, while regular updates are submitted at meetings of the Risk Committee and the Board.

The Compliance function is tasked with ensuring that the Fund fully complies with the regulations governing its activities. This includes monitoring changes to pertinent regulations and disseminating information about these throughout the Fund, through training, policy statements and by other means.

Board of Directors



Johnny Capor

Member of the Board since 2014. Former Deputy Managing Director and CFO of KF/Coop. Directorship on the board of Folksam Liv. Born 1966.

Sven Björkman

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

Jeanette Hauff

Member of the Board since 2010. Ph.D. in Economics. Active at Gothenburg University's School of Business, Economics and Law, and Skandia. Directorship on the board of QQM Fund Management AB. Born 1965.

Ola Alfredsson

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

Ole Settergren

Member of the Board since 2013. Head of Pensionsmyndighetens utvecklingsavdelning (The Swedish Pensions Agency Development Unit). Born 1964.

Ulrika Boëthius

Member of the Board since 2012. Chair of Finansförbundet (The Financial Sector Union of Sweden). Directorships on the boards of TCO (Confederation of Professional Employees), NFU (Nordic Financial Unions), Cefin (Centre for Banking and Finance) at KTH. Born 1961.

Marie S. Arwidson

Chairman since 2010 M.Sc. (Econ). Formerly Managing Director of the Swedish Forest Industries Federation. Directorships on the board of Rottneros AB and member of the Royal Swedish Academy of Engineering Sciences. Born 1951.

Kristina Mårtensson

Member of the Board since 2015. Chief Economist and Social policy Director at Svenska Kommunalarbetarförbundet (Swedish Municipal Workers' Union). Born 1966.

Christer Käck

Member of the Board since 2014. M.Sc. (Econ). Self employed. Member of the Investment Advisory Board for the Stockholm County Council Foundations. Born 1953.

Executive Management



Ola Eriksson

Head of IT, Business Control and Accounts. Employed since 2001. Other directorships: Centre for Finance (CFF) at the School of Business, Economics and Law, Gothenburg University. Born 1965.

Eva Halvarsson

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

Tomas Franzén

Chief Investment Strategist (CIS). Employed since 2001. Other directorships: Chalmers University of Technology Trust, Finance Committee and Chairman of International Advisory Board, EDHEC Risk Institute. Born 1957.

Martin Jonasson

General Counsel. Secretary to the Board. Employed since 2001. Other directorships: ETC Battery and FuelCells Sweden AB. Born 1964.

Henrik Westergård

Head of Performance and Risk Management. Employed since 2012. Born 1973.

Ulrika Danielson

Head of Communication & HR. Employed since 2009. Born 1965.

Hans Fahlin

Chief Investment Officer (CIO). Employed since 2010. Other directorships: AFS Interkulturell Utbildning Sverige and the Centre for Finance (CFF) at the School of Business, Economics and Law, Gothenburg University; member of the Polar Music Prize Administrative board and the Capital Committee of KK-stiftelsen (The Knowledge Foundation) and Chairman of the Institute of Quantitative Research Europe (INQUIRE). Born 1957.

Auditors

Sussanne Sundvall,
Authorized Public Accountant, PwC.

Peter Nilsson, Authorized Public Accountant, PwC.

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 generate an active return.

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

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.

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 classes of asset 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.

Carbon footprint

'Carbon footprint' is the term used to describe a company's/portfolio's combined carbon dioxide emissions.

Credit risk/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.

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.

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 non-listed 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.

Information ratio

A gauge of risk-adjusted relative return. Measured as relative return, divided by 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 contrac

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

Operative risk

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

QFII licence

Investors who have been granted a licence to invest in Chinese domestic equities by the Chinese Financial Supervisory Board.

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.

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.

S&P/Standard & Poor's

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

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. An active 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.

Volatility

Volatility refers to the amount the price of a financial asset varies over time. This is normally expressed as a percentage, in terms of the standard deviation.



The Fund's assets under management amounted to SEK 300.6 billion on December 31, 2015, and during the year SEK 4.9 billion was transferred to the Swedish national pension system.

Eva Halvarsson, CEO, Second AP Fund

