



*Andra AP-fonden*  
Second Swedish National Pension Fund - AP2

# **Half-year report**

## **January 1 – June 30 2009**

## Continuing high share of equities fuels solid recovery

*The first half of the year saw some major market fluctuations, even if the situation on the world's equities, fixed-income and foreign exchange markets was somewhat calmer, compared to autumn 2008. This positive result may be largely attributed to the continuing high share of equities in the Second AP Fund's portfolio, especially in terms of the Swedish market.*

- The Fund posted a return of 6.4 (-9.1) percent on its total portfolio for the first half of the year, excluding costs. Return after commission costs and operating expenses amounted to 6.3 (-9.2) percent.
- The Fund's capital assets amounted to SEK 182.5 billion as per June 30th 2009, the net profit for the period being SEK 10.9 (-21.0) billion. The fact that the net flow within the Swedish national pension system was negative (SEK -1.7 billion) during this period, for the first time since the system was launched, produced a net increase in Fund capital of SEK 9.2 billion.
- Since it was established in 2001, the Fund's capital has increased by SEK 29.1 billion, excluding net inflows.
- Combined relative return on the Fund's market quoted assets was +0.1 percent. This favourable result was primarily attributable to the active in-house management of Swedish equities, foreign fixed-income securities and foreign exchange.
- During the first half year, the allocation to corporate credits has been increased. The choice of index for Swedish equities and FX exposure has also been adjusted. As per June 30th, the Fund's currency exposure was 9 percent.
- During the first half, the Second AP Fund has participated in a number of new share issues on the Swedish equities market, thereby contributing some SEK 700 million to Swedish companies. These investments have had a positive impact on both total and relative return.
- The annual cost efficiency analysis, conducted in collaboration with CEM, demonstrates that the Fund continues to maintain a lower level of costs compared to similar globally active organizations.
- Since the close of the report period, the Fund has continued to generate a favourable return on invested capital, mainly attributable to the strong performance of global equities markets.

*Figures in parentheses refer to the corresponding values for June 30th 2008.*

*Unless otherwise stated, the portfolio assets referred to in this report are allocated exposures. In addition to booked market values, these also refer to allocated (not yet invested) capital for the specific class of asset, and other assets 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 market values.*

## Chief Executive's review

*It is pleasing to note the substantial recovery in the market value of the assets under Second AP Fund management during the first half of 2009. By maintaining the portfolio's high allocation of equities, especially on the Swedish market, the Fund's total portfolio was able to generate a return of +6.4 percent. We are therefore able to report a positive return of SEK 10.9 billion on invested capital. We have made a number of changes in the strategic portfolio during the first six months of the year – including an increase in the allocation to corporate credits, in the form of international corporate bonds. Our active asset management activities have contributed positively to the total result.*

In the past six months, the financial markets have experienced many sudden sharp swings. During the first few months of the year, the market continued to be highly nervous about where the global economy and international financial markets might be headed.

During the late spring and summer, many of the key indicators have levelled out and swung upwards again, leading to an increased appetite for risk on financial markets and a sharp recovery on stock markets. During the past six months, we have made a number of adjustments to our strategic portfolio, both with respect to refining the process for dealing with long and medium-term allocations and to the further diversification of the portfolio. Among other things, we have increased our allocation in terms of international corporate bonds, convinced that we can expect a good return over the coming years, in light of the international constraints placed on credit.

Although we are developing and refining our allocation activities, our fundamental investment strategy remains the same. This means that the portfolio shall continue to comprise a relatively high share of equities. We believe this is necessary to ensure that we can achieve our goal as a 'buffer fund' within the Swedish national pension system. If you look at the way risk is spread within the national pension system as a whole, it is worth remembering that the combined pension assets managed by Sweden's five 'buffer funds' account for only about 10 percent of total pension assets. Consequently, the combined equity risk is relatively limited.

Turning to the active management of Fund assets, we partially changed its focus at the end of last year. We simplified our in-house organization and concentrated on the asset classes that we felt offered the best potential for generating added value, mainly Swedish equities and global fixed income securities. This change in focus involved terminating in-house active management of global equities, cutting the overall cost of our in-house asset management activities. So far this year, the active management of assets has contributed favourably to the overall return, with our in-house performance proving especially successful. This seems a positive sign that our active portfolio management is moving in the right direction.

Naturally, the key argument in favour of active asset management is an assumed ability to outperform index over time. I would here also like to highlight the responsibility that the AP Funds and other major asset managers share in establishing a functional and liquid capital market, especially in Sweden. During the first half of 2009, for example, the Second AP Fund has injected some SEK 700 million into the Swedish market, in the form of new share issues. All have been implemented subsequent to thorough analysis and in-house evaluation by the Fund. The return on these investments has been excellent, definitely in part due to the Fund's detailed knowledge and thorough analysis of the companies in question.

During the first half of the year, we have intensified efforts to increase the cost efficiency of our operation. Ever since the establishment of the Second AP Fund, we have striven consistently to rationalize our work routines and to keep costs at a reasonable level. To reduce costs, we have collaborated with the other 'buffer funds' in a number of different areas over several years now. For instance, we negotiate a number of services jointly. We are also involved with other 'buffer funds' in the joint ownership of Vasakronan (AP1, AP3, AP4) and Norrporten (AP6). Over the years, these interests have generated a substantial return for the national pension system. In our ongoing efforts to refine the efficiency of our operation, we are careful to ensure that they undermine neither the quality nor the security of our management of pension assets. Over the past five years, we have conducted systematic comparisons with fund managers of a similar type and size in other countries, which have clearly demonstrated that we maintain a competitive cost profile. The results of these surveys confirm that our costs are lower than for similar fund managers in other countries.

Finally – opinions vary as to how the market is likely to develop during the autumn. The latter part of the first half has featured extremely bullish stock markets, with share prices rising on a broad front on most global markets. Looking ahead, a mood of optimism seems to be spreading again, and the feeling that we are in the midst of the worst recession since the 1930s seems relatively remote. The sharp upward trend noted by the stock market has continued, even into the early part of the second half. Even so, a number of risks still threaten the economy, and the available macro-statistics indicate an ongoing stabilization process rather than a strong recovery. In our opinion, a certain amount of scepticism should be exercised concerning assumptions that the recovery on global stock markets will continue at the same pace and with the same vigour.

This view is reflected in some of the strategic changes we have already implemented but – once again – it is important to reiterate that maintaining a high allocation of equities remains fundamental to the Second AP Fund's strategic approach.

Eva Halvarsson  
CEO

# Major fluctuations on the financial markets

The financial markets noted some major fluctuations during the first six months of 2009. The year started as 2008 had ended, with widespread anxiety that the global economy could be heading for something reminiscent of the Great Depression of the Thirties. The situation developed into a full-blown financial crisis with the failure of the US investment bank Lehman Brothers in October, a crisis that had been gaining momentum since the summer of 2007, virtually paralyzing the global economy and international financial markets. Economic indicators pointed sharply downwards during the winter and growth figures for most countries were sharply negative in the last quarter of 2008.

GNP continued to shrink during the first quarter of the year. Nevertheless, key indicators in several countries started to level out during the spring, subsequently pointing upwards again. The rate at which the economy contracted slowed during the second quarter, leading to growing expectations in the summer of a marked stabilization of the economy during the second half. Economic policy continued to be supportive, with substantial financial stimulants, continued record-low interest rates near the zero mark in many countries and extensive measures to flood the markets with liquidity.

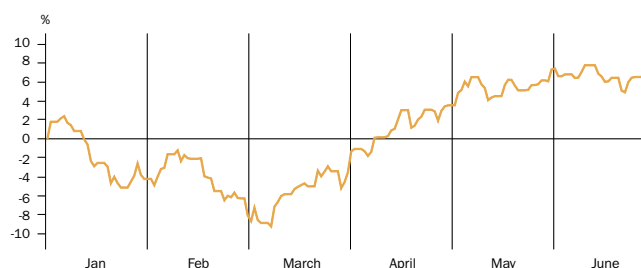
The crisis that has affected the securities markets and bank system for more than a year now is mainly the result of debt restructuring measures, instituted in a belated attempt to remedy years of aggressive lending in both the real and financial economy. It seems likely that this restructuring of balance sheets, both on the domestic and banking front, will slow demand to a level that fails to reflect the market's true potential. US household consumption is a case in point. Even so, a period of sluggish growth like this does not mean that the global economy will necessarily find itself in a depression. This said, the more acute nature of the crisis experienced last autumn clearly risked driving the world into a self-destructive downward spiral, where debt restructuring and deflation could have depressed economic activity to extremely low levels for a very long time. The risks attending such a scenario explain the massive arsenal of economic policy measures activated to deter it, measures which in turn naturally risk generating other problems and challenges in the more distant future.

In the late spring and summer, the level of economic activity has stabilized and shown signs of increasing again. This has increased the appetite for risk on financial markets, and investors whose portfolios were sharply underweighted in equities and other high risk assets during the autumn felt encouraged to revert to their normal positions. This has led to a strong recovery on stock markets, at the same time that credit risk premiums have been pressed still lower. Based on a fundamental analysis, this rally may be interpreted to mean that several market players have geared their portfolios in anticipation of a temporary recession as opposed to a full-blown depression. The economic recovery is likely to be uneven, featuring periods of robust growth followed by periods of weaker macro-statistics. A recoil in corporate profits is on the cards, although how long this may be sustained remains to be seen. For these reasons, we expect the financial markets to be somewhat rocky during the rest of 2009, maybe even during the first part of next year.

In terms of valuing and pricing different asset classes, the map has been redrawn radically in the past 12 to 18 months. A common feature has been the increase in risk premiums and the way the lack of liquidity has affected prices.

Seen in the medium to long-term, credit markets in particular once again reflect pricing that features adequate risk premiums, encouraging increased allocations. Given a scenario based on a severe recession rather than something closer to a full depression, the equities markets should also feature reasonable risk premiums.

**Absolute return, first half 2009**



# Strategic changes yield new opportunities

The composition of the Second AP Fund's strategic portfolio features the combination of asset classes that the Fund deems will yield the best long-term return in the form of systematic exposure to risk premiums on the markets. Overall allocation within the strategic portfolio is relatively stable in its fundamental structure, but significant changes are made on a more or less yearly basis.

At year-end 2008, the portfolio comprised the following asset classes:

- Swedish quoted equities
- Foreign equities (hedged)
- Foreign equities (non-hedged)
- Equities in emerging markets (non-hedged)
- Fixed-income securities
- Real estate
- Private-equity funds

The composition of the strategic portfolio is appraised each year by the Second AP Fund board. This appraisal is based on an ALM (Asset Liability Modelling) study, conducted in-house and developed in cooperation with Fraunhofer Chalmers Research Centre for Industrial Mathematics.

The strategic analysis on which changes in the strategic portfolio are based has two primary functions. It is used to identify deviations in market relationships that can influence the long-term prospects for various asset classes and to locate new asset classes that can improve the portfolio's ability to achieve the Fund's long-term goal.

## Allocation to corporate credits

The past 12 to 18 months' turbulence on financial markets has led to dramatic changes in the valuation and pricing of many asset classes. The rate of interest on risk-free government bonds has fallen at the same time that risk premiums on the credit and equities markets have in general risen. Scarce liquidity in the wake of the global credit crisis has also affected the pricing of many financial assets, which has further depressed valuations. This has created new opportunities for the Fund's strategic portfolio.

During the first half of the year, the allocation to global corporate credits in the Fund's strategic portfolio was increased from 3 to 10 percent. This new allocation comprises both traditional credit bonds and convertible bonds. Common to both these asset classes is the fact that the remuneration for risk is deemed to have increased sharply, after many years in which credit risk offered almost no remuneration at all.

The Fund's allocation to traditional credit bonds (four percentage units) has been largely compensated by a reduc-

tion of the allocation to global government bonds, with a view to increasing the potential for a higher return over the next few years.

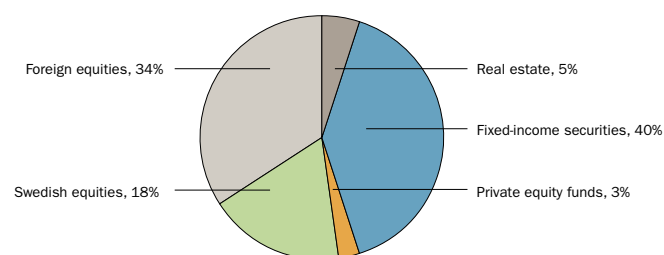
The allocation to convertible bonds (three percentage units) has been largely compensated by a reduction of the allocation to global equities. Convertible bonds create an interesting diversification of the Fund's portfolio, since the yield for this asset class largely reflects the general market trend. If the performance of equity markets is weak or negative in the medium term, convertible bonds may be expected to reflect the performance of credit markets, which at present are valued historically at a high credit risk premium. When share prices rise, the yield profile for convertibles may be expected to more or less reflect the performance of the equities market, if not entirely. Given the uncertainty surrounding the performance of stock markets in recent years, convertibles provide a valuable spread of risk in the Fund's strategic portfolio, with its fundamentally high exposure in equities.

## Swedish equities benchmark and FX exposure

Minor adjustments have also been made to the Fund's Swedish equities benchmark and in its exposure to individual currencies. For some years now, the Fund's strategic exposure to Swedish equities has featured a significant proportion of alternative indices that deviate from traditional market-weighted indices. The negative spinoffs deriving from their implementation has led to a slight reduction in the allocation to these alternative indices, while the way the indices are designed has been altered somewhat, to facilitate their implementation.

In the Fund's opinion, the sharp fall in the value of the Swedish krona since the autumn of 2008 has led to the Swedish krona being significantly undervalued against the euro in the medium term. Consequently, strategic hedging of equities quoted in euro was gradually raised during the late spring, from the earlier level of 50 percent to the current 75 percent. This is expected to contribute positively to the return on the Fund's global equities portfolio, when the value of the Swedish krona is normalised.

## Strategic portfolio, June 30th 2009



The Fund's strategic portfolio, by asset class.

# Active portfolio management posts positive result

## New organisation from January 2009

To ensure more effective exposure of the assets under management, and to improve opportunities for generating a positive relative return, the Second AP Fund implemented a change in its portfolio management organization at the start of 2009. The organisation was simplified, the number of in-house portfolio mandates was reduced and the in-house management of global equities was terminated. At the same time, a new department – Strategic Exposure and Trading – was established. One of the most important tasks assigned to this new department is the effective exposure of assets, as per the Fund’s strategic benchmark index, and to manage the inconsistencies that can arise from market movements. The department is committed to the ongoing reduction of costs that arise in connection with day-to-day management of the Fund’s assets. A special project is being conducted during the year to generate better comparative data concerning the costs associated with maintaining our strategic exposure.

## In-house portfolio management

After an extremely turbulent and in many respects troublesome year in 2008, the Fund is pleased to note how well the active management of its in-house portfolio succeeded during the first half of 2009. Particularly worthy of note is the excellent relative return on the portfolios of Swedish equities and foreign fixed-income securities.

## Active management of Swedish equities

Several of the equity holdings that depressed the performance of the portfolio of Swedish equities last year have made a dramatic come-back this year. Clas Ohlson, Hentex and Oriflame are examples of companies that have posted a strong relative performance. Limited exposure to Ericsson, the forest industry companies and investment companies has also made a positive contribution to the result. Overperforming by more than 4.5 percentage units against the Fund’s benchmark index, up to the end of the first half, the portfolio of Swedish equities recovered more than the entire relative loss recorded for 2008. Furthermore, the absolute return on the Swedish equities market has been high, giving a substantial boost to the Fund’s total return on assets.

## Active management of fixed-income securities

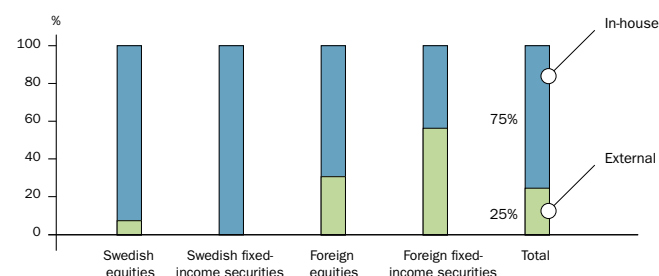
The portfolio of foreign government bonds, as in 2008, has generated a solid relative return, outperforming index by more than 1 percentage unit. The return on the actively managed portfolio of Swedish bonds also exceeded index. The positive result derived mainly from two different positions. Firstly, the Fund was positioned for a steeper return curve during the early part of the summer and, secondly, we thought the market’s credit spreads would contract relative to government bonds, in sectors such as housing bonds and corporate bonds. Thanks to signs of a deceleration in the rate at which the economy was contracting, and in the light of growing hopes of recovery in the longer term, the equities markets started to recover in late February, early March. The credit market recovered only slowly in the beginning, but an ever-stronger equities market boosted the general appetite for risk, increasing the demand for credit and triggering a rise in long bond rates. This trend was accentuated during the second quarter, when the Fund’s investment strategies for fixed-income securities generated an excellent return.

## Quantitative management

(passive and semi-active strategies)

The in-house quantitative management team handles Swedish and global equities, as well as Swedish fixed-income securities. During the first half of the year, the assets have been managed at a low level of active risk and the combined result for all portfolios under quantitative management was just below index.

## In-house and external management by asset class, %



#### Strategic Exposure & Trading

Trading in foreign exchange and equities has gone very well during the period, posting strong returns. The result derived from consistent positive returns at a low level of risk. On the other hand, management of the Fund's exposure against the strategic portfolio has had a negative impact on the Fund's relative return.

#### Tactical Asset Allocation (TAA)

A new tactical asset allocation function was established at the start of the year. Based on a relatively short investment horizon, the aim is to exploit investment opportunities generated by market swings. Positions are adopted in foreign exchange, equities and fixed-income investments, to exploit deviations from the strategic portfolio allocation determined by the board of directors. The result for the first half of the year was slightly negative.

#### External management

External management services are employed for asset classes, markets and strategies for which the Fund lacks the required resources. This external management process involves a number of asset management mandates, most of which feature relatively high active risk. All in all, these external management activities generated a slightly negative relative return for the period. Bond funds, which invest in emerging markets, were among the mandates that performed best, clearly outperforming index. Otherwise, it is clear that several of the Fund's external managers found it difficult to adjust the portfolios sufficiently quickly to the sharp swings in the market noted during the spring, both with respect to equities and fixed-income investments. Consequently, several external mandates therefore generated a return that failed to reach index for the same period.

#### All in all, a positive alpha contribution

The Fund's active management has contributed a combined total added value of 0.1 percent. It is highly pleasing that our in-house management has gone so well in so many respects, given the restructuring process that has just been completed. However, the markets are highly uncertain and subject to dramatic fluctuations, and the Fund's portfolio managers are well aware of the challenges that lie ahead. The performance of external mandates has not been satisfactory in the past year, and considerable effort is being devoted to reviewing all the Fund's external management assignments.



# Improved monitoring of credit risks

Following the financial crisis experienced in the autumn and winter, combined with credit market anxiety, the subject of credit risk has been even more sharply highlighted, both in terms of preparedness and follow-up. At the Fund, this has led to the initiation of a project designed to further enhance the quality of its operations and to improve the models and methods employed to monitor the risks to which the Fund is exposed. Strictly defined, 'credit risk' refers to the risk of loss arising from failure to honour a credit commitment.

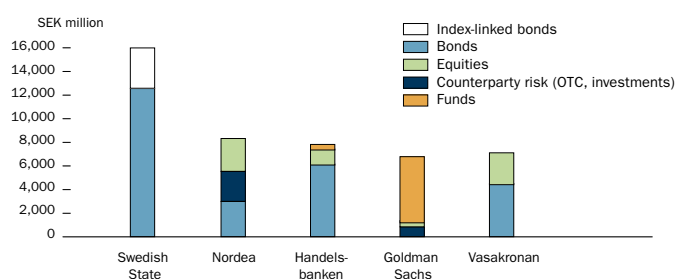
Ultimately, the Fund's exposure is limited by the investment regulations determined by the Swedish Parliament, which define the limits applied to permitted investments. As well as the external constraints placed on the Fund, a number of in-house requirements are also applied, with a view to limiting risk levels. Credit risk embraces issuer risk, counterparty risk, liquidation risk and concentration risk.

## Issuer risk

Issuer risk is defined as the risk that an issuer (an issuer of securities) may become insolvent and thereby unable to fulfil its commitments. Issuer risk embraces the Fund's total outstanding commitments involving individual issuers or groups of issuers. These total commitments include all asset classes in which the Fund is permitted to invest.

Routines for monitoring issuer exposure have been refined and expanded. Previously, the monitoring process focused on the limits established by the Swedish Parliament concerning holdings with an individual issuer and the in-house requirements applying to the fixed-income portfolio. Now, the Fund's total outstanding exposure to the largest issuers, including the type of securities (as indicated below), is reviewed on a daily basis.

## Exposure to issuers



The Fund's combined exposure to the five largest issuer groups.

## Counterparty risk

Counterparty risk may be defined as the risk that a counterparty may become insolvent and thereby unable to fulfil its commitments. Counterparty risk is a sub-component of issuer risk, comprising OTC-traded products (foreign exchange

and cash). Approval as counterparty to the Second AP Fund, together with the granting of a counterparty limit, is subject to a credit assessment, requiring the fulfilment of several criteria. This process has been refined and complemented by a monthly review of the Fund's counterparties and a thorough annual analysis. Monitoring of the Fund's outstanding volume of counterparty risk is now conducted on a daily basis.

## Concentration risk

Credit-related concentration risks are defined as the risk that too great a share of the exposure may be concentrated to an industry, region or single counterparty/issuer. Monitoring of the concentration risk has progressed from merely confirming that the Fund's total exposure to an issuer or issuer group does not exceed 10 percent of the Fund's assets (as prescribed in the investment regulations established by the Swedish Parliament) to monitoring the Fund's total exposure to the 30 largest issuer groups. This monitoring process, which comprises all exposures to the issuer group, is conducted on a daily basis. The next stage is to monitor and analyse concentrations by industry and branch.

## Liquidation risk

Liquidation risk refers to the risk of loss where a securities transaction is not executed on the agreed day of liquidation. To limit the risk posed by liquidation, transactions in securities may only be conducted with brokers approved by Finansinspektionen/FI (the Swedish Financial Supervisory Authority), or the corresponding supervisory authority of the country in question. To further limit the number of brokers, the Fund maintains an ongoing review of their status.

## Rating

A common tool for assessing the creditworthiness of issuers and counterparties is the analyses conducted by the rating institutes approved by the Swedish Financial Supervisory Authority. Unlike banks and large debt management companies (which are subject to government supervision and must therefore comply with the Basel Agreement), the majority of fund managers/pension funds rely on these analyses to determine risk. In the wake of the financial crisis, many market commentators consider that the rating institutes contributed to the crisis by failing to react to the worsening market climate in time. This has led to increased global political pressure to regulate the industry. The Fund considers the data provided by rating institutes represents an important part of the analytical process, but feels it appropriate to complement such data with expanded in-house analyses, as well as additional in-house routines and other credit rating activities.

# Focus on greater efficiency continues

## Resource allocation

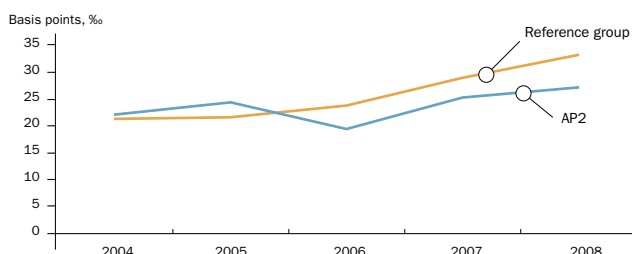
Since its inception, the Second AP Fund has sought to focus on an efficient utilization of resources, both in terms of personnel and costs. This collaboration with external parties creates opportunities for objective comparisons, with a view to evaluating and further improving the Fund's operational efficiency. Since 2005, the Fund has collaborated with Cost Effectiveness Measurement Inc. (CEM), a Canadian company with many years' experience in the analysis of pension funds.

The cost of executing transactions is also monitored on a continuous basis. The Second AP Fund conducts ongoing Total Cost Analysis (TCA), to determine the cost efficiency of the Fund's trading activities. At regular intervals, the Fund's costs are compared with the market as a whole, based on external trading statistics.

## CEM study

The study is designed to generate solid comparative data, on which an ongoing analysis of the Fund's efficiency can be based, with respect to both portfolio focus and resource utilization. CEM studies the cost of managing the Fund's combined assets and the volume of the capital under management, as well as the degree of active management. Earlier studies have led to the implementation of a number of new measures to improve efficiency. The comparative model employed by CEM addresses the Fund's total portfolio, including unquoted assets. Analysis of the 2008 result shows that the Fund has maintained its lower level of costs, compared to the reference group. This derives mainly from the Fund's decision to manage a large part of its portfolio in-house and lower costs for a number of externally managed mandates.

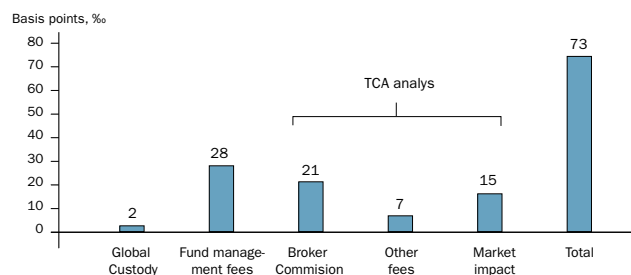
## Cost efficiency comparison



The CEM study demonstrates the Second AP Fund's level of costs in relation to its benchmark group over the period 2004 to 2008.

## Trading in securities

Transaction costs are unavoidable when trading in securities. A number of global players conduct ongoing analyses and evaluations of these costs, one of them being the WM group. In its analysis, this group defines all costs, from custodial services to market impact. Average cost levels for trading in global equities (based on the full twelve months for 2008) are shown in the graph below.



Breakdown of transaction costs, global equities trading.  
Source: State Street Investment Analytics

In the same way, the Second AP Fund conducts its own regular analyses of transaction costs, choosing to focus particularly on commissions and the impact on trading rates, referred to as 'market impact'. Such analyses are often referred to as Trading Cost Analyses (TCA), which the Fund has been conducting for the past five years. These demonstrate that the costs of both commissions and market impact have declined over time, apart from in 2008. This was in several respects an especially interesting year to study, being a time of extreme market volatility. This market turbulence led to a sharp increase in the Fund's costs for market impact, especially during the fourth quarter, where the market's limited liquidity was a contributing factor.

During the year, the Fund has initiated a study in association with an external partner, to analyse costs in connection with the rebalancing of the strategic portfolio. The aim is to reduce costs by developing new methods and work routines, and by implementing appropriate changes in the coming year.

**Enhancing process efficiency**

The financial crisis also placed information and decision systems under severe strain. It accentuated the need for stable and rapid decision data, a need that is expected to increase, to keep pace with the demands imposed by general market development, new asset classes and new types of market instrument. The Fund initiated the process of building up a 'data warehouse' as early as 2006. This work, which is ongoing, is scheduled for completion during 2010.

The 'data warehouse' enables provision of efficient and flexible decision support, based on a platform that ensures the secure and efficient consolidation of data from several sources. A significant proportion of the Fund's systems support has already been established within the 'data warehouse', permitting refined and more complex analyses.

The 'data warehouse' also permits interconnection of different parameters, enabling presentation of a more comprehensive picture of various aspects, such as positions taken, costs, level of risk and final result.

# Financial review

The Fund reports combined assets of SEK 182.5 billion for the first half of 2009, including net inflows within the pension system, an increase of SEK 9.2 billion during the period. This increase may be attributed to the Fund's net result of SEK 10.9 billion and to net external capital outflows of SEK -1.7 billion.

Excluding net inflows received since its inauguration, the Fund's capital assets have increased by SEK 29.1 billion, corresponding to an annual average return of 2.3 percent.

All in all, the Fund reports a total return of 6.4 percent, excluding costs, for the six months ending June 30th 2009. A return of 7.9 percent, excluding costs, was noted for the market-quoted portfolio. The Fund's benchmark index for quoted assets generated a return of 7.8 percent, resulting in a relative return of +0.1 percent.

The net result for the first six months of 2009 amounted to SEK 10 920 million. This comprised operating income including commissions paid, less operating expenses. Operating income comprises net interest income, dividends received and a net result for respective asset classes totalling SEK 11 639 million, together with exchange losses of SEK 559 million. Operating income also includes commission costs of SEK 85 million, of which fees paid to external fund managers amounted to SEK 80 million and custodial costs SEK 5 million. Operating expenses in the form of personnel and other administration expenses have been charged against Fund earnings in an amount of SEK 75 million.

During the first six months, 25 percent of Fund assets were managed externally. All these mandates involved active or semi-active 'enhanced' management. External management includes investment in private equity funds.

As per June 30th, a mere 9 percent of the Fund's combined assets were exposed in foreign exchange. Exchange losses for the first half amounted to SEK 725 million, including interest gains/losses on currency futures, and are primarily attributable to USD and euro transactions.

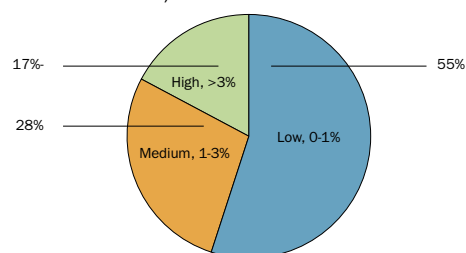
Volatility for the Fund's total portfolio of quoted assets was 20 percent, twice the figure reported for the first half of 2008.

## Fund capital performance, first half 2009, SEK million

	SEK million
Fund capital brought forward	173,338
Pension contributions received	25,247
Pension disbursements	-26,872
Administration contribution	-115
Transferred from Liquidation/Special Management funds	0
Net result for the period	10,920
<b>Fund capital carried forward</b>	<b>182,518</b>

The active risk noted by the Fund's total exchange-quoted portfolio and asset classes increased during the first half of 2009, compared to the first six months of 2008. This increase is largely attributable to the increased volatility of the market during the autumn of 2008. Calculated on a rolling twelve-month historical basis, the Fund's active risk was 1.0 percent, compared with 0.7 percent for the same period in 2008. Risk utilisation levels for Swedish and foreign equities were 1.8 and 1.9 percent respectively, reported on a rolling twelve-month basis. The level of active risk for fixed income securities increased, amounting to 0.7 percent. This increase derives mainly from the Fund's increased allocation to corporate credits. The Fund's information and Sharpe ratios for the corresponding period were negative.

## Distribution of active risk, %



Funds's active risk, by level of utilization.

Key ratios	June 30th 2009	2008	2007	2006	2005
Fund capital, SEK million	182,518	173,338	227,512	216,775	190 593
Inflows, SEK million	-1,740	884	2,019	1,676	2 905
Share of asset management costs, excluding commission costs, over the year, %	0.08	0.08	0.06	0.06	0.07
Share of asset management costs, including commission costs, over the year, %	0.18	0.16	0.13	0.15	0.16
Net result for the period, SEK million	10,920	-55,058	8,718	24,506	29 568
Return on total portfolio, excluding costs, %	6.4	-24.0	4.2	13	18.7
Return on total portfolio, including costs, %	6.3	-24.1	4.0	12.8	18.5
Relative return on quoted assets, excluding costs, %	0.1	-1.8	- 0.4	0.2	0.2
Currency exposure, %	9	12	11	12	11
Active risk, ex post, %	1.0	1.0	0.7	0.7	0.5
Share of external management (incl. investments in private equity funds), %	25	22	24	17	28

# Distribution and growth of Fund capital by asset

## FX exposure

The Fund's combined exposure in foreign exchange (FX) was 9 percent at the close of the first half. The effect of the currency hedging strategy is reported only for the Fund as a whole.

## Swedish equities

The market value of the portfolio of Swedish equities amounted to SEK 31.5 billion, including investments in Swedish unit trusts totalling SEK 2.4 billion. Eight percent of these holdings were placed under external management. The return posted for the first six months was 22.9 percent, resulting in a relative return of 1.2 percent against benchmark. This relative return is primarily attributable to the choice of securities in the Fund's Swedish portfolio, which involved a more concentrated risk.

The five single largest holdings by market value in the Fund's portfolio of Swedish equities were Nordea Bank (3.1 percent), Ericsson (2.5 percent), Hennes & Mauritz (2.1 percent), Volvo (1.3 percent) and TeliaSonera (1.2 percent).

## Swedish equities

	June 30th 2009	2008	2007	2006	2005
Exposed value, SEK billion	31.5	30.8	45.0	43.5	40.8
Absolute return, %	22.9	-42.0	-3.1	29.5	36.6
Relative return, %	1.2	-1.7	-0.5	0.6	-2.9
SIXRX, %	24.4	-39.1	-2.6	28.1	36.3
External management, %	8	7	6	10	18
Active risk, ex post, %	1.8	1.9	1.9	2.9	1.6

## Foreign equities

The market value of the portfolio of foreign equities totalled SEK 62.1 billion. Of these holdings, 31 percent were managed under external mandates. The return on holdings in foreign equities was 8.6 percent, including foreign exchange gains/losses, resulting in a relative return of -0.6 percent compared to the benchmark portfolio.

## Foreign equities

	June 30th 2009	2008	2007	2006	2005
Exposed value, SEK billion	62.1	68.9	89.6	85.7	77.5
Absolute return, %	8.6	-29.5	8.3	16.4	22.9
Relative return, %	-0.6	-1.2	0.3	2.5	2.0
MSCI AC World, %	7.4	-27.1	7.2	13.0	20.0
External management, %	31	28	39	27	53
Active risk ex post, %	1.9	2.0	1.7	1.0	0.7

## Fixed-income securities

The market value of the Fund's fixed-income holdings, including liquidity, amounted to SEK 73.2 billion by June 30th. Of this sum, foreign fixed-income holdings, comprising government bonds, credit bonds and funds, totalled SEK 31.7 billion. 29 percent of these holdings were placed under external management.

The return on fixed-income securities was 1.5 percent and the relative return was 0.4 percent, compared with the benchmark portfolio.

## Fixed-income securities

	June 30th 2009	2008	2007	2006	2005
Exposed value including liquidity, SEK billion	73.2	57.3	80.6	77.4	65.1
Absolute return, %	1.5	16.6	2.5	0.8	4.3
Relative return, %	0.4	-1.3	-0.2	0.0	0.0
External management, %	29	20	15	10	8
Active risk, ex post, %	0.7	0.5	0.2	0.3	0.4

## Alternative Investments

Asset class Alternative Investments comprises the Fund's investments in private equity funds and unquoted real-estate holdings. Asset class Alternative Investments posted a return of -7.2 percent.

## Private equity

The Second AP Fund noted a -19.9 percent return on its investments in private equity funds. During the first six months of the year, real investments have been made in private equity funds to a combined total of SEK 340 million. The Fund's total investment commitments amount to SEK 15 billion, distributed among 34 funds. Of this sum, SEK 5.2 billion has already been invested. The Second AP Fund's holdings in private-equity funds are appraised in compliance with the principles established by EVCA (the European Private Equity & Venture Capital Association) or comparable valuation principles that are common to the entire industry and based on recognized methods. The valuation of holdings is based on the latest interim reports from the respective private-equity funds. Reported value at the close of the first half is based on the consolidated results supplied by the companies for the first quarter of the year, adjusted for inflows and outflows during the second quarter. This valuation principle has been applied consistently from the start.

A sensitivity analysis based on the market performance of the MSCI World index for quoted equities during the second quarter should indicate a write-up of reported values. This has not been the case, however (see table on next page).

For further details of the valuation principles, please refer to page 11 of the 2008 Annual Report.

#### Real estate

The Fund's exposure in real estate consists of its portfolio of quoted shares and holdings in the unquoted real-estate companies Norrporten (50 percent) and Vasakronan (25 percent).

The Fund's unquoted real-estate investments posted a combined return of -0.9 percent for the first half of the year. The market value of the Fund's participation in Vasakronan amounted to SEK 6.5 billion, while the Norrporten holding was valued at SEK 4.3 billion. The return on investment in Vasakronan was -3.0 percent and, in Norrporten, +3.4 percent.

#### Sensitivity analysis: private equity, June 30th 2009

	Valuation in interim report, June 30th 2009	Adjusted as per MSCI with AP2's regional exposure*, 100% effect	Adjusted as per MSCI with AP2's regional exposure*, 50% effect
Market value, SEK m, excl. hedge	4,608	5,611	5,110
Adjusted market value, %		22	11
Adjusted market value, SEK m		1,003	502
Return first half 2009, incl. hedge %	-20		
Percentage of total Fund capital, %	2.5		

\* MSCI World index adjusted for regional exposure in AP2's private equity portfolio.

#### Composition of strategic portfolio: exposure and return, June 30th 2009

Asset class	Strategic portfolio, %	Exposure, %	Exposed value, SEK bn	Return AP2, %	Return bench- mark portfolio, %	Active risk ex post*, %
Swedish equities	18	17.3	31.5	22.9	21.7	1.8
Foreign equities	34	34.0	62.1	8.6	9.2	1.9
Fixed-income securities, incl. liquidity and accrued interest	40	40.1	73.2	1.5	1.1	0.7
<b>Total quoted assets, excl. commission costs and operating expenses</b>			<b>7.9</b>	<b>7.8</b>	<b>1.0</b>	
Alternative investments	8	8.6	15.7	-7.2	2.0	
<b>Total Fund capital, excl. commission costs and operating expenses</b>	<b>100</b>	<b>100</b>	<b>182.5</b>	<b>6.4</b>	<b>7.4</b>	

\* Historical outcome, 12 months rolling.

### Commission costs

Commission costs total SEK 85 million for the first half. These costs include external asset management costs of SEK 80 million and custodial costs in an amount of SEK 5 million.

Commission costs do not include performance-linked fees, which are paid when a portfolio manager achieves a return in excess of the agreed target. These are reported as deductions under net result per asset class. Performance-linked fees for the first half of 2009 totalled SEK 28 million.

As of 2008, commissions paid on the management of unquoted assets, for which repayment is approved prior to profit sharing, and deemed likely, are reported in the balance sheet together with investments in unquoted equities. During the period, advance payments on management fees for unquoted assets have been refunded in an amount total-ling SEK 54 million. Of this sum, SEK 51 million has been entered as a receivable in the accounts at the close of the first half, together with the investment's market value.

### Operating expenses

Operating expenses for the first six months of the year amounted to SEK 75 million, personnel costs accounting for SEK 43 million and other management expenses for the re-maining SEK 32 million. Management expenses are ex-pressed on a yearly basis and are defined both including and excluding commission expenses and in relation to the Fund's average total assets.

During the first half of the year, the Fund's management expenses, including commission costs, amounted to 0.18 percent of Fund capital. Excluding commission costs, this share amounted to 0.08 percent.

### Fund costs, SEK million

	June -09	June -08	Dec -08
Commission costs	85	90	171
of which			
– external management costs	80	83	156
– custodial costs	5	7	15
Operating expenses	75	80	159
Share of management costs, %*	0.08	0.07	0.08

\*Based on operating expenses in relation to average Fund capital

### Personnel

As per June 30th 2009, the Fund employed 52 full-time staff. At year-end 2008, the Fund numbered 55 full-time staff.

### Accounting and valuation principles

This half-year report has been prepared in accordance with the accounting and valuation principles developed jointly by Sweden's "buffer" funds. These principles are described on page 34 of the Fund's annual report for 2008.

### Next financial report

The full annual report and operating result for the financial year 2009 will be published in February 2010. A Corporate Governance Report will be published in September 2009.

Gothenburg, August 24th 2009

Eva Halvarsson  
CEO

## Income statement

SEK million	Jan–June 2009	Jan–June 2008	Jan–Dec 2008
<b>Operating income</b>			
Net interest income	1,236	2,140	4,497
Dividends received	1,944	3,399	4,230
Net result, quoted equities & participations	8,329	-24,046	-61,367
Net result, unquoted equities & participations	-1,311	- 260	-1,180
Net result, fixed-income securities	4	-1,275	1,722
Net result, derivative instruments	1,437	-801	-4,674
Net result, exchange gains	-559	61	2 044
Commission expenses	-85	- 90	-171
<b>Total operating income</b>	<b>10,995</b>	<b>-20,872</b>	<b>-54,899</b>
<b>Operating expenses</b>			
Personnel expenses	-43	-46	-89
Other administration expenses	-32	- 34	-70
<b>Total operating expenses</b>	<b>-75</b>	<b>-80</b>	<b>-159</b>
<b>NET PROFIT FOR THE PERIOD</b>	<b>10,920</b>	<b>-20,952</b>	<b>-55,058</b>

## Balance sheet

SEK million	Jan–June 2009	Jan–June 2008	Jan–Dec 2008
<b>Assets</b>			
Equities & participations			
– quoted	88,643	114,855	88,883
– unquoted	8,898	8,685	10,079
Bonds & other fixed-income securities	76,170	81,404	69,713
Derivative instruments	10,623	2,390	10,112
Cash & bank balances	1,984	2,046	2,362
Other assets	144	2,102	411
Prepaid expenses and accrued income	1,317	1,519	1,487
<b>TOTAL ASSETS</b>	<b>187,779</b>	<b>213,001</b>	<b>183,047</b>
<b>Fund capital &amp; liabilities</b>			
Liabilities			
Derivative instruments	2,883	1,157	9,497
Other liabilities	2,268	4,436	90
Deferred income & accrued expenses	110	207	122
<b>Total liabilities</b>	<b>5,261</b>	<b>5,800</b>	<b>9,709</b>
<b>Fund capital</b>			
Opening fund capital	173,338	227,512	227,512
Net inflow to the national pension system	-1,740	628	831
Transferred from special & liquidation funds	0	13	53
Net profit for the period	10,920	-20,952	-55,058
<b>Total Fund capital</b>	<b>182,518</b>	<b>207,201</b>	<b>173,338</b>
<b>TOTAL FUND CAPITAL &amp; LIABILITIES</b>	<b>187,779</b>	<b>213,001</b>	<b>183,047</b>

This report has not been subject to special examination by the Fund's auditors.





**Andra AP-fonden**  
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