



Andra AP-fonden
Second Swedish National Pension Fund - AP2

Half-year report
January 1 – June 30 2010

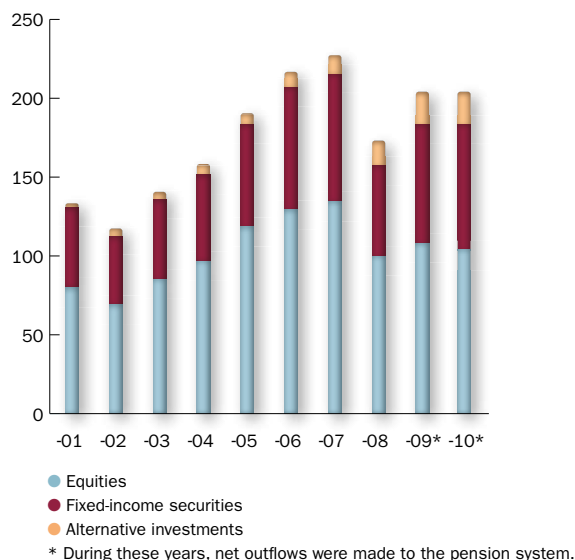
All asset classes outperformed index

Return on Fund capital contributed SEK 2.5 billion during the first half of 2010. After pension disbursements of SEK 2.0 billion, the Fund's capital assets amounted to SEK 204.8 billion. The Fund posted a total return, excluding costs, of 1.3 percent. Relative to the benchmark index, return was 0.4 percent, excluding alternative investments and costs. All asset classes outperformed their respective benchmark indices.

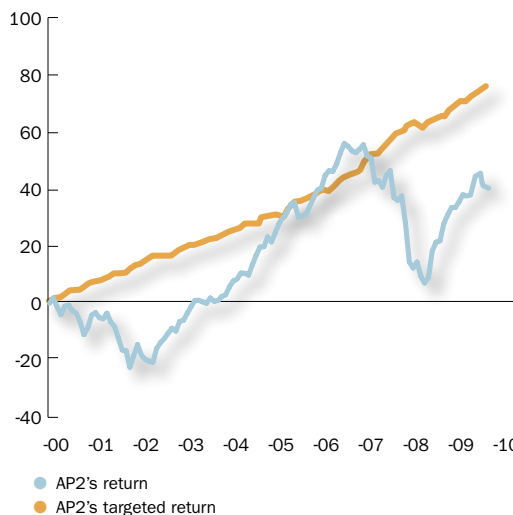
- The Second AP Fund's assets under management amounted to SEK 204.8 (182.5) billion as of June 30 2010.
- The Fund posted a first-half net result of SEK 2.5 (10.9) billion. Net outflows to the pension system amounting to SEK -2.0 (-1.7) billion were charged against the net result.

- The Fund's return on the total portfolio was 1.3 (6.4) percent, excluding commission costs and operating expenses. Including these costs, the portfolio generated a return of 1.2 (6.3) percent.
- The Fund noted a relative return of 0.4 (0.1) percent including implementation effects for the strategic benchmark portfolio, but excluding alternative investments, commission costs and operating expenses.
- The Fund's level of currency exposure was 9 percent.
- In June, the Fund decided to make its first investment in an agricultural fund (Teays River, a US fund).

Fund capital growth, 2001 – 2010-06-30, SEK billion
(including net inflows to the Fund of SEK 15.3 billion)



Accumulated return, %



Figures in parentheses refer to the corresponding values for June 30 2009.

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

Even though 2009 distinguished itself as the year of recovery, the first half of 2010 was mainly notable for the high volatility of financial markets. Interest has tended to focus on the levels of national debt and economic instability of certain European countries. The crisis experienced in southern Europe has highlighted the weaknesses inherent in several state pension systems. Some countries have responded by adopting reforms similar to those introduced in Sweden towards the end of the 1990s. The EU was forced to launch an extensive rescue package. Although this initially had a calming effect, it was followed by a growing feeling of uncertainty. Consequently, seen as a whole, the period was highly turbulent.

In spite of this market instability, the Fund's performance was modestly positive, contributing a SEK 2.5 billion increase in assets under management. This said, inflows to the pension system remained lower than outflows and, during the first half of the year, the Fund's net outflows to the pension system amounted to SEK 2 billion. This resulted in total reported assets of SEK 204.8 billion as of June 30. This is one of the roles for which the buffer funds were established – to balance periods of deficit and surplus in the system.

The assets under management outperformed their benchmark indices in all asset classes. The Second AP Fund's portfolio, which continues to feature a high proportion of equities, has benefited from the favourable performance of the Swedish equities market. This trend has been sustained during the first six months of this year. The return generated on Swedish equities during the first half amounted to 7.2 percent, a 0.3 percent improvement against the benchmark index.

We have continued the work of diversifying the Fund's portfolios of assets and, in line with this strategy, have initiated an increase in the allocation to real assets, mainly in the form of investments in forest and agricultural assets.

Cost-efficient organisation

As part of the Swedish pension system, it is entirely natural that the Fund's activities should be subject to audit and evaluation on a regular basis. Our responsibility is to ensure that these Swedish pension assets are invested as efficiently as possible. In pursuing this aim, we therefore constantly review every aspect of our operations to ensure and develop cost-efficient portfolio management that unites high quality with high security. For example, we commission an external party to conduct an annual study that compares the efficiency of our port-

folio management operations with those of a group of global fund managers.

During the year, in collaboration with the First, Third and Fourth AP Funds, the Second AP Fund has studied the potential for reducing administrative costs through increased cooperation between the funds' respective business support units. The results of these studies revealed that the potential savings would be fairly limited, would involve considerable establishment costs and pose clear risks to the funds' business activities. During the spring, in a move to further their current cooperation, the AP Funds decided to establish a special forum for collaboration. The idea is to reduce costs within the framework of the existing organizational structures, through increased transparency and harmonization.

Continuing to monitor our cost efficiency is a natural part of our day-to-day activities.

Active governance

During the year, the debate about incentive schemes for leading executives has continued. In view of the fact that the boards of respective companies are those responsible for drafting relevant and appropriate remuneration packages, we have during the first half of the year intensified our dialogue with corporate boards concerning the issue of remuneration. The Second AP Fund is in favour of long-term incentive schemes, where it is felt that these promote the companies' growth in the long run.

The Swedish Government's annual review of the AP Funds confirms that our efforts with respect to corporate governance are bearing fruit. Voting at AGMs is an important tool in the exercise of active governance. For this reason, we have exercised our voting rights in a significantly greater number of foreign companies during the spring.

Looking ahead

In spite of the considerable turbulence of markets during the spring, the macro-statistics presented by analysts have been bullish. We believe this market volatility will continue through the autumn. The net outflows from the pension system will also continue, for which we have adjusted our portfolio. We have a well balanced portfolio and believe we are well equipped to face the future.

Eva Halvarsson
CEO

Asset-class performance

The financial markets experienced dramatic turbulence during the first half of 2010. Seen in a broad market perspective, the Swedish stock market is one of a limited few to have developed favourably during the first half, while many international stock markets noted a broad decline measured in local currency. Generally speaking, it is the countries with sound state finances that have benefited from the current financial market situation, as opposed to those with weaker state finances. Uncertainty about the recovery, as well as anticipated monetary and financial stringencies in the form of budget cutbacks and tax hikes, have led to a general decline in bond interest rates since the turn of the year.

Swedish equities

Swedish equities are managed in four separate portfolios, each with its own benchmark index. During the first half, Swedish equities under management generated a combined return of 7.2 percent, outperforming the benchmark index by 0.3 percent. The Fund's fundamental active in-house management of Swedish equities outperformed index by 0.8 percent. The broad quantitatively managed portfolios are invested at low relative risk to reflect index. These asset classes underperformed marginally, relative to their index. The management of small caps outperformed index by 0.8 percent, due to the performance of the externally managed portfolios, while those under in-house management were less successful.

Foreign equities

Management of foreign equities generated an overall negative return of -2.0 percent during the first half of the year, prior to

currency hedging, which was a 0.3 percent improvement against index. The foreign equities under in-house management just failed to reach their targeted benchmark index, while the actively managed external portfolios, including emerging market portfolios, outperformed their indices.

Fixed-income securities

The Fund's portfolios of fixed-income securities, totalling SEK 78 billion, generated 4.7 percent prior to currency hedging, an improvement of 0.2 percent against their benchmark index. Both the Swedish and foreign portfolios of fixed-income securities under in-house management outperformed benchmark index. The external mandates achieved mixed results, while investments in foreign emerging-market instruments noted a positive relative return.

Alternative investments

Just over SEK 22 billion of Fund capital, about 11 percent, is invested in 'alternative assets'. At the close of the first half of 2010, 51 percent of these assets comprised real estate, 28 percent private-equity funds and 21 percent convertible bonds. During this period, including currency hedging, these alternative investments generated a return of 4.7 percent.

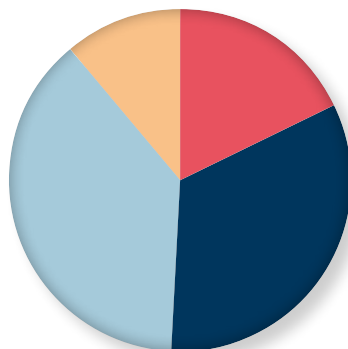
Private-equity funds

The Fund is committed to a total of 36 investments in private-equity funds, involving 19 counterparties. Combined investment commitments amounted to SEK 15.1 billion at the close of the first half. Of this sum, SEK 6.4 billion has already been invested, of which SEK 641 million during the first six months of 2010. Two new commitments involving a total investment of SEK 310 million have been made during the period. The Fund's investments in private equity are still at a relatively early stage, which is why only SEK 93 million has been repaid so far this year. The market value of the Fund's private-equity assets amounted to SEK 6.6 billion at the close of the first half, compared to SEK 5.4 billion at the start of the year. After currency hedging, these private-equity funds generated a return of 8.4 percent during the period.

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 7.4 percent for the first half of the year. The market value of its participation in Vasakronan amounted to SEK 6.8 billion, while the Norrporten holding was valued at SEK 4.6 billion. The

Second AP Fund portfolio, June 30 2010



- Swedish equities, SEK 36.6 billion
- Foreign equities, SEK 67.8 billion
- Fixed-income securities, SEK 78 billion
- Alternative investments, SEK 22.4 billion

return on investment in Vasakronan was 9.0 percent and, in Norrporten, 5.0 percent. In June, the Fund decided to make its first investment in an agricultural fund (Teays River, a US fund).

Convertibles

During 2009, the Fund invested in convertibles, which were then considered to offer solid opportunities for returns on a par with equities, while simultaneously ensuring a diversification of the Fund's relatively high level of investment in equities. During the first half, the Fund's holdings in convertibles generated 5.6 percent before currency hedging. At the close of the first six months, these convertibles had a combined market value of SEK 4.8 billion.

Currency exposure

The Fund's combined exposure in foreign currencies amounted to 9 percent at the close of the first half. The consequences of the hedging strategy on the net result, reported only as an overall total for the Fund, amounted to -1.9 percent for the first half. The

Fund believed that the dramatic weakening of the Swedish krona, in autumn 2008, resulted in its being significantly undervalued over the medium term in relation to the euro. Consequently, the Fund's strategic hedging of euro-quoted equities was therefore gradually enhanced in 2009, from the earlier level of 50 percent to 75 percent. In 2010, the valuation of the Swedish krona has reverted to a more normal level. During the late spring, the Fund's strategic hedging has been adapted accordingly, having gradually reverted from 75 percent to 50 percent. This tactical adjustment has impacted positively on the result, contributing slightly in excess of SEK 200 million.

Implementation effects

The Second AP Fund defines costs and income attributable to the implementation and rebalancing of the strategic portfolio as 'implementation effects'. These effects can arise from positions taken in futures, in connection with foreign exchange transactions and from weighting deviations between indices. During the first half of the year, the sum of these effects was marginally positive.

Composition of strategic portfolio, share of portfolio and return, June 30th 2010

Asset class	Strategic portfolio, %	Share of portfolio, %	Market worth SEK bn	Absolute return, %	Relative return, %	Active risk ex post*, %
Swedish equities	18.0	17.9	36.6	7.2	0,3	0.7
Foreign equities	34.0	33.1	67.8	-2.0	0.3	0.6
Fixed-income securities, including liquidity and accrued interest	37.0	38.1	78.0	4.7	0.2	0.4
Total quoted assets, excluding alternative investments and costs				0.9	0.4	0.3
Alternative investments	11.0	10.9	22.4	4.7		
Total Fund capital, excluding commission costs and operating expenses		100.0	100.0	204.8	1.3	

* Historical outcome, 12 months rolling.

Contributions to absolute and relative return

	Contribution to absolute return, %	Contribution to relative return, %
Swedish equities	1.5	0.1
Foreign equities	-0.7	0.1
Fixed-income securities, including liquidity and accrued interest	1.8	0.1
GTAA	0.1	0.1
Overlay	0.0	
FX Hedge	-1.9	
Total market-quoted assets, excluding alternative investments and implementation effects	0.9	0.4
Implementation effects*		0,0
Total market-quoted assets excluding alternative investments and including implementation effects	0.9	0.4
Alternative investments	0.4	
Total assets, excluding commission costs and operating expenses	1.3	

* Impact on result deriving from maintained exposure to strategic portfolio.

Continued focus on cost efficiency

Cost-efficient portfolio management involves making a range of strategic choices, as well as flexibility in determining investment focus and mandate. Through its expertise and strict control of business flows, the Second AP Fund aims to establish an operating climate that promotes the efficient utilization of resources, superior quality and security, as well as flexibility. The extent to which this is achieved is subject to annual review by the Swedish Ministry of Finance but, following a Fund initiative, is also subject to independent assessments by internationally respected firms of efficiency analysis, with a view to establishing reliable comparative data and to identify new efficiency targets.

Fund costs

The Fund's costs consist partly of in-house operating expenses and partly of commission costs, including external portfolio management and custodial costs. Furthermore, the Fund has transaction costs relating to its trading activities, as well as performance-based asset management costs for the management of its external mandates, which are charged against the market value of these assets. It is essential that all such costs are analysed and compared to those of other market players. The Fund monitors direct and indirect transaction costs on a continuous basis, utilizing techniques such as TCA (Trading Cost Analysis), which as well as measuring the direct transaction costs also takes market impact and the Fund's efficiency in executing these transactions into consideration. Other costs are analysed in collaboration with Cost Effectiveness Measurement Inc (CEM).

CEM

Collaboration with CEM in evaluating the Fund's portfolio management costs has continued over several years. CEM studies costs in relation to the volume of capital assets under management, the amount of assets under active management and the portfolio's relative allocations by asset class. The Fund's costs are compared with a global peer group of fund managers of similar size and composition. The result of the 2009 study confirms that the Second AP Fund conducts its operations more cost efficiently than equivalent global fund managers.

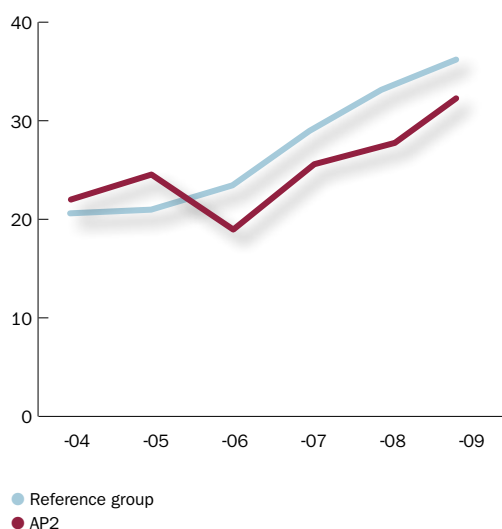
Analysis of administrative costs

During the year, the First, Second, Third and Fourth AP Funds have jointly analysed the prospect of reducing administrative costs through closer collaboration. The studies address a number of alternative approaches to such collaboration, ranging from far-reaching structural changes to a more project-based approach. Among other things, these studies have concluded that the potential efficiencies to be gained from establishing a joint organization are limited and that any such solution would involve significant establishment costs, allied to considerable operational and commercial risks. This said, a couple of areas have been identified that offer the potential for further efficiencies.

Ongoing collaboration between AP Funds

In a move to further current cooperation and promote greater transparency, the AP Funds have established a special forum for collaboration, which will comprise the First, Second, Third and Fourth AP Funds, as well as the Sixth and Seventh AP Funds. This will first and foremost involve the funds' business support units and certain staff functions. This closer collaboration aims to reduce costs through increased transparency. It also offers the possibility of signing joint agreements with suppliers and business partners. At the same time, this collaboration must be formulated in such a manner as to avoid restricting the Funds' abilities to compete freely with each other.

Cost level comparison, basis points %



The above graph shows the Fund's cost level compared to its peer group over the period 2004-2009.
Source: CEM

Financial review

The Fund's assets under management amounted to SEK 204.8 billion at the close of the first half of 2010, a net increase of SEK 0.5 billion since the end of 2009. This change derives partly from the Fund's positive net result of SEK 2.5 billion and partly from the pension system's continued negative net outflow of SEK -2.0 billion. For the second year running, the pension system reports negative net outflows attributable to changes in contributions to and from the system, where wages and salaries, level of employment and retirement age are key factors.

Excluding the net inflows received since the Fund's inauguration in 2001, its capital assets have increased by SEK 56 billion, equivalent to an average annual return of 3.4 percent, including operating expenses.

Fund capital performance, first half 2010, SEK million

Fund capital brought forward		204 290
Pension contributions received	25 369	
Pension disbursements	-27 237	
Administration contribution	-128	-1 996
Net result for the period		2 545
Fund capital carried forward		204 839

The positive impact on the net result for the first six months of 2010, which amounted to SEK 2 545 (10 920) million, derived mainly from growth in fixed-income securities and alternative investments. The result comprised operating income including commissions paid, less operating expenses. Operating income comprises net interest income, dividends received and a net result for the respective asset classes totalling SEK 2 510 (11 639) million, together with exchange gains of SEK 212 (-559) million and commission costs of SEK -101 (-85) million. Operating expenses in the form of personnel and other administration expenses have been charged against Fund earnings in an amount of SEK 76 (75) million.

The Fund's total relative risk decreased during the first six months of the year from 0.6 percent to 0.3 percent. This was attributable to a lower level of risk in the asset classes foreign and Swedish equities. The same period also witnessed a reduction in the Fund's absolute risk, from 12.0 percent to 9.0 percent. The information ratio noted a positive gain, rising from 1.3 to 3.3, the result of solid growth in the relative return and reduction in relative risk.

Commission costs

Commission costs of SEK 101 (85) million were charged against operating income, comprising external asset management costs of SEK 95 (80) million and custodial costs of SEK 6 (5) million.

To a great extent, the level of active risk selected and choice of market are what determine asset management costs. In 2010, the external management of Fund assets has continued to maintain its active focus and, as at June 30 2010, 24 percent of Fund capital – including unquoted assets – was being managed under external mandates.

Commission costs for the external management of market-based assets partly comprise a fixed element and partly, for certain assignments, a performance-linked element. For the first half of 2010, the fixed element, reported as a commission cost, totalled SEK 92 (77) million, while the variable performance-linked element amounted to SEK 72 (28) million. Including management fees for private-equity funds, the Fund's combined fixed external management costs totalled SEK 95 (80) million.

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, management fees for unquoted assets totalled SEK 61 (54) million. Of this sum, SEK 58 (51) million has been reported as part of the acquisition value and is included in the market value.

Fund costs, SEK m

	Jan-June 2010	Jan-June 2009	Jan-Dec 2010
Commission costs	101	85	182
of which			
– external management costs	95	80	171
– custodial costs	6	5	11
Operating expenses	76	75	150
Asset management costs relative to Fund capital, %*	0.07	0.08	0.08

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

Figures in parentheses refer to the corresponding values for June 30 2009.

Operating expenses

Operating expenses for the first six months of the year amounted to SEK 76 (75) million, personnel costs accounting for SEK 44 (43) million and other administration expenses for the remaining SEK 32 (32) million. Asset management costs are expressed on a yearly basis and are defined both including and excluding commission costs and in relation to the Fund's average total assets. During the first half of the year, the Fund's asset management costs, including commission costs, amounted to 0.17 (0.18) percent of Fund capital. Excluding commission costs, this share amounted to 0.07 (0.08) percent.

Personnel

As per June 30 2010, the Fund employed 55 full-time staff. At year-end 2009, the Fund numbered 53 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 50 of the Fund's annual report for 2009.

Board of directors

During the spring and summer, the Swedish Government has appointed four new members to the Second AP Fund's board of directors. Marie S. Arwidson, Managing Director of the Swedish Forest Industries Association, has been appointed to chair the board, the other three new board members being Jeanette Hauff, Lasse Thörn and Ola Alfredsson. Gunnar Larsson, Ylva Thörn, Eva Persson and Clas Nykvist have left the board.

Next financial report

The annual report for the financial year 2010 will be published in February 2011. Furthermore, a separate Corporate Governance Report will be published at the end of September 2010.

Gothenburg, August 26 2010

Eva Halvarsson
CEO

Figures in parentheses refer to the corresponding values for June 30 2009.

Income statement

SEK million	Jan-June 2010	Jan-June 2009	Jan-Dec 2009
Operating income			
Net interest income	1 771	1 236	2 491
Dividends received	1 825	1 944	2 526
Net result, quoted equities and participations	-2 393	8 329	27 288
Net result, unquoted equities and participations	943	-1 311	-803
Net result, fixed-income securities	1 422	4	2 022
Net result, derivative instruments	-1 058	1 437	3 322
Net result, exchange gains/losses	212	-559	-1 656
Commission expenses, net	-101	-85	-182
Total operating income	2 621	10 995	35 008
Operating expenses			
Personnel expenses	-44	-43	-87
Other administration expenses	-32	-32	-63
Total operating expenses	-76	-75	-150
NET PROFIT FOR THE PERIOD	2 545	10 920	34 858

Balance sheet

SEK million	Jan-June 2010	Jan-June 2009	Jan-Dec 2009
Assets			
Equities and participations			
Quoted	96 794	88 643	101 615
Unquoted	11 385	8 898	9 651
Bonds and other fixed-income securities	90 509	76 170	81 600
Derivative instruments	9 659	10 623	9 709
Cash and bank balances	1 816	1 984	2 400
Other assets	662	144	12
Prepaid expenses and accrued income	1 837	1 317	1 825
TOTAL ASSETS	212 662	187 779	206 812
Fund capital and liabilities			
Liabilities			
Derivative instruments	5 152	2 883	2 354
Other liabilities	2 437	2 268	52
Deferred income and accrued expenses	234	110	116
Total liabilities	7 823	5 261	2 522
Fund capital			
Opening fund capital	204 290	173 338	173 338
Net inflow to the national pension system	-1 996	-1 740	-3 906
Net profit for the period	2 545	10 920	34 858
Total Fund capital	204 839	182 518	204 290
TOTAL FUND CAPITAL AND LIABILITIES	212 662	187 779	206 812

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

Five-year review

	2010-06-30	2009	2008	2007	2006
Fund capital, flows and net result, SEK m					
Fund capital	204 839	204 290	173 338	227 512	216 775
Net inflows from the National Social Insurance Board/RFV and special and liquidation funds	-1 996	-3 906	884	2 019	1 676
Net result for the period	2 545	34 858	-55 058	8 718	24 506
Return, %					
Return total portfolio, excl. commission costs and operating expenses	1.3	20.6	-24.0	4.2	13
Return total portfolio, incl. commission costs and operating expenses	1.2	20.3	-24.1	4.0	12.8
Relative return on quoted assets excluding alternative investments, commission costs and operating expenses	0.4	0.7	-1.8	-0.4	0.2
Risk, %					
Active risk, ex post	0.3	0.6	1.0	0.7	0.7
Asset management costs relative to Fund capital, %					
Asset management costs relative to Fund capital, excl. commission costs	0.07	0.08	0.08	0.06	0.06
Asset management costs relative to Fund capital, incl. commission costs	0.17	0.18	0.16	0.13	0.15
FX exposure, %	9	10	12	11	12
Share of assets under external management (including investments in private-equity funds), %	24	24	22	24	17



Andra AP-fonden
Second Swedish National Pension Fund - AP2