



Andra AP-fonden
Second Swedish National Pension Fund - AP2

Half-year report

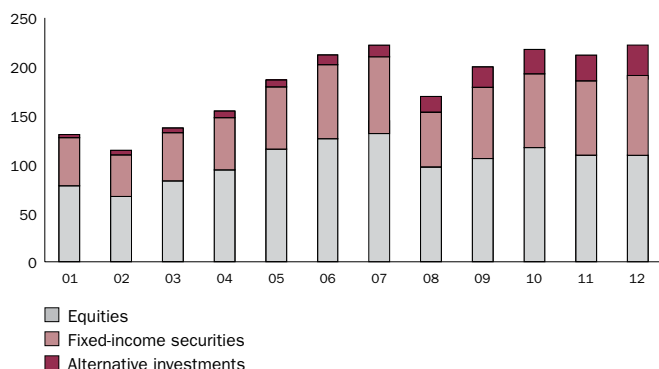
January 1 – June 30 2012

Result consistent with AP's long-term objectives

The Second AP Fund posted a total return of 5.8 percent, excluding costs. Relative to benchmark index, return was 0.5 percent, excluding alternative investments and costs. Fund capital increased by SEK 10.6 billion to SEK 227.3 billion for the first half of 2012.

- The Second AP Fund's assets under management totalled SEK 227.3 (227.5) billion on June 30 2012, against which net outflows to the national pension system were charged in an amount of SEK -1.7 billion.
- The Fund posted a first-half net result of SEK 12.3 (5.1) billion.
- The Fund's return on the total portfolio was 5.8 (2.4) percent, excluding commission costs and operating expenses. Including these costs, the portfolio generated a return of 5.7 (2.3) percent.
- The relative return on the portfolio of quoted assets, excluding alternative investments and costs, amounted to 0.5 (0.1) percent, corresponding to a net contribution of SEK 0.9 billion.
- Operating expenses in terms of asset management costs remained low, totalling 0.08 percent for the period.
- Excluding net inflows from the national pension system, Fund capital has increased by SEK 82.9 billion since its start in 2001, corresponding to an average annual return of 3.9 percent, after costs.
- The Fund's level of currency exposure was 15 (18) percent.

Fund capital growth, 2001 – June 30 2012, SEK billion
(including a net inflow to the Fund of SEK 10.4 billion)



Figures in parentheses refer to the corresponding values for June 30 2011.

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

The financial markets experienced continued turbulence and volatility during the first six months of the year. The Second AP Fund's long-term asset management strategy towards greater diversification of the portfolio aims to create greater stability with respect to the return generated in times like these. This process continued during the first half of the year, generating a result in the form of a total return of 5.8 percent. It is pleasing that the Fund's active return amounted to 0.5 percent, roughly equivalent to SEK 1 billion. The result for the first half is thereby fully consistent with our long-term objective of generating an average annual real return of five percent.

During the period, all asset classes yielded a positive return. Swedish equities generated a return of 6 percent, foreign equities 6.4 percent, fixed-income securities 3.4 percent and alternative investments 8 percent.

To further diversify and thereby increase the stability of the portfolio, the Fund nearly doubled its commitment to the company jointly established in collaboration with US pension fund TIAA-CREF and others, focused on investment in agricultural real estate in the US, Australia and Brazil. Furthermore, investment in the Teays River agricultural fund during the period was significantly increased and it was transformed into a wholly-owned company. This is fully consistent with our determination to invest in as cost-and-business-efficient a manner as possible, while simultaneously increasing our alternative investments.

Current status of financial markets

The European economic and financial crisis has now gone on for more than two years. Economic activity in Europe has noted a sharp decline and the crisis has created widespread anxiety over the risk of a total collapse of euro cooperation. The euro crisis derives from the fear that several of the major European economies might – like Greece – find themselves so severely affected by high interest rates as to be unable to fulfil their obligations to their creditors. The euro crisis peaked in early May, as both Greece and France approached national elections, with outcomes that were uncertain. During the late spring, weak macro statistics from China and the rest of Asia, as well as from the USA, have fuelled the risk of a severe worsening of the global economy during the rest of the year. Policy measures implemented in China and cuts in interest rates by a large number of central banks – as well as a lower oil price than in the spring – are expected to mitigate the effects of a weaker economy during the autumn.

The market situation in Europe, as well as the rest of the world, has been the subject of ongoing analysis and evaluation by the Fund. In the early summer, in light of the generally nervous state of European financial markets and with a view to reducing risk in the Fund's portfolio, we decided to increase the strategic hedging of the Fund's allocation in eurozone equities from 50 percent to 100 percent.

Focus on risk

At the start of the year, a new organisation was implemented at the Fund, responsibility for business support functions being separated from that for risk and performance analysis. This was a consequence of the Fund's sharpened focus on vital risk-related issues, but also to enable the ongoing development of the business support function. At the same time, the Fund's board of directors established a risk committee. This will serve as a drafting committee for the board, tasked with defining the various types of risk to which the Fund is exposed and to ensure the creation of a suitable structure and process for managing such risks. The risk committee is also tasked with ensuring that risk management processes are satisfactorily implemented, as well as monitoring the day-to-day risk reporting process.

Review of staff benefits

As a manager of pension assets, the Fund is entrusted with an important task. This makes stringent demands on our ability to act with sound judgment in carrying out our responsibilities and in being transparent in the way we conduct our business. These issues are subjects of regular discussion within the Second AP Fund. We share a common system of values, have established clear in-house policies governing the way we act and observe Skatteverket's (Swedish Tax Agency) rules concerning our staff benefits. In light of the attention focused in June on the staff benefits enjoyed by the Swedish National Pension Funds, we have decided to conduct a new review of all staff-related policies, to determine any areas where greater clarity may be required. Furthermore, the Chairs of all Swedish National Pension Funds have also agreed to harmonize the overall framework concerning staff-related benefits.

Events subsequent to close of report period

The conclusions of the Buffer Capital Report have been published in the past few days. The Second AP Fund is determined to play an active role and to contribute its knowledge and make its views known in this ongoing process.

Looking ahead

Much suggests that the current volatility and uncertainty on financial markets will continue. The Second AP Fund continues to pursue its long-term strategy, and further diversification of the portfolio will remain a key priority. Among other projects, as one of the first Swedish investors, we are currently in the final phase of submitting our application for a licence to invest directly in China's domestic equities market. Given the growing importance of the emerging markets, we see this as a vital element in our ability to continue to provide Sweden's pensioners with a solid return on their invested assets.

Eva Halvarsson
CEO

Asset-class performance during first half

During the first quarter, the markets were influenced by two factors. The first was the impression that the risk of a worsening crisis in the eurozone had diminished, after the European Central Bank intervened to finance the eurozone's banks. The second factor was the surprisingly positive economic data released by several countries, especially in the case of the vital American economy. Share prices rose in most regions. Interest rates in countries outside the eurozone, that were considered secure, rose, while interest rates in countries affected by the crisis fell sharply. During the second quarter, the trend swung in the opposite direction. Anxiety over developments in the eurozone was reignited in conjunction with the Greek elections and the problems affecting the Spanish bank sector. Global economic indicators revealed lower growth than anticipated. Share prices across the world headed down and subsequently noted a high degree of volatility. Interest rates moved in the opposite direction compared to the preceding quarter.

Seen over the full six-month period, however, the Fund noted a positive return on all asset classes. Swedish equities generated a return of 6.0 percent, foreign equities 6.4 percent and fixed-income securities 3.4 percent. The Fund's alternative investments, comprising unquoted real estate, private-equity funds and convertible bonds, generated a return of 8.0 percent.

The Fund's active management of assets generated a solid result, exceeding the benchmark index by 0.5 percent, excluding alternative investments and costs, equivalent to SEK 0.9 billion. The Fund's in-house management of global and Swedish equities exceeded index. This was equally true with respect to the Fund's in-house management of Swedish fixed-income securities and global government securities. The Fund's external asset managers also made an overall contribution to the positive active result.

Composition of strategic portfolio, share of portfolio and return, 30 June 2012

Asset class	Strategic portfolio, %	Share of portfolio, %	Market worth, SEK bn	Absolut return, %	Relative return, %	Active risk ex post*, %
Swedish equities	12.0	11.8	26.8	6.0	0.1	0.7
Foreign equities	38.0	37.3	84.8	6.4	0.6	0.5
Fixed-income securities, including liquidity and accrued interest	37.0	37.7	85.6	3.4	0.6	0.5
Total quoted assets, excluding alternative investments and costs				5.4	0.5	0.4
Alternative investments	13.0	13.2	30.1	8.0		
Total Fund capital, excluding commission costs and operating expenses	100.0	100.0	227.3	5.8		

* Historical outcome, 12 months rolling.

Contributions to absolute and relative return

	Contribution to absolute return, %	Contribution to relative return, %
Swedish equities	1.1	0.0
Foreign equities	2.6	0.3
Fixed-income securities, including liquidity and accrued interest	1.4	0.2
GTAA	0.0	0.0
Overlay	0.0	0.0
FX Hedge	0.2	0.0
Total market-quoted assets, excluding alternative investments and implementation effects	5.4	0.5
Implementation effects*		0.0
Total market-quoted assets excluding alternative investments and incl. implementation effects	5.4	0.5
Alternative investments	0.3	
Total assets, excluding commission costs and operating expenses	5.8	

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

Financial review

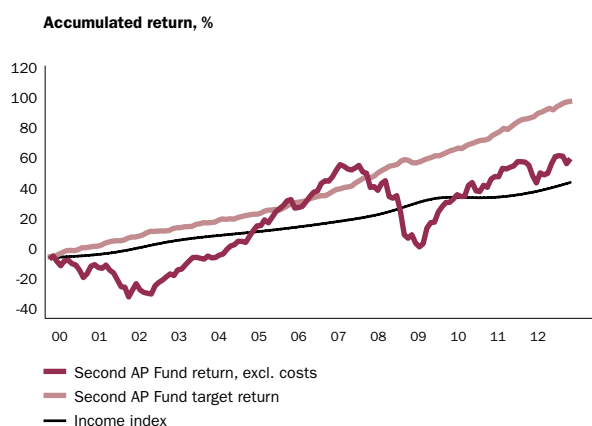
The Fund's assets under management amounted to SEK 227.3 billion at the close of the first half of 2012, a net increase of SEK 10.6 billion since the end of 2011. This change derives partly from the Fund's positive net result of SEK 12 311 million and partly from the pension system's continued negative net outflow of SEK -1 667 million. Costs incurred in administering the pension system, invoiced by Pensionsmyndigheten (the Swedish Pension Agency), have been charged against Fund capital in an amount of SEK -110 million. For the fourth year running, the pension system reports negative net outflows, mainly attributable to demographic changes.

Fund capital performance, first half 2012, SEK million

Fund capital brought forward		216 622
Pension contributions received	27 691	
Pension disbursements	-29 248	
Administration contribution	-110	-1 667
Net result for the period		12 311
Fund capital carried forward		227 266

Outperformed income index from start

Excluding the net inflows received since the Fund's inauguration in 2001, its capital assets have increased by SEK 82.9 billion, equivalent to an average annual return of 3.9 percent, including operating expenses. To maintain or improve the balance in the system, the Fund's return on portfolio assets must outperform the income index. For the corresponding period, the income index has risen by an annual average of 3.1 percent. The following graph shows that the Fund contributed to an improved balance within the system.



Half-year result

The result for the first half of the year was SEK 12 311 (5 145) million, with all Fund asset classes contributing. Both Swedish and foreign equity portfolios posted a solid net result totalling SEK 4.5 billion, as well as a good direct return in the form of dividends amounting to SEK 2.2 billion. The Fund's portfolio of fixed-income securities made a similar contribution to the overall result, generating a net result of SEK 1.6 billion and a good net interest gain. Furthermore, the Fund's alternative investments noted a gain in value that contributed to the reported result. Operating income comprised net interest income, dividends received and a net result for respective asset classes of 13 047 (6 770) million, together with exchange losses of SEK -551 (-1 444) million and commission costs of SEK 99 (102) million. Operating expenses in the form of personnel and other administration expenses have been charged against Fund earnings in an amount of SEK 86 (79) million.

During the report period, the Fund's total active risk increased from 0.3 to 0.4 percent, a consequence of a the greater utilization of risk within asset class 'Fixed-income securities'. The information ratio, calculated over 12 months, has improved somewhat since the start of the year, and was around zero at the end of the first half, mainly attributable to an improved relative return. During the greater part of the first half, exposure in foreign currency was relatively low, about 16 percent, in relation to the Fund's 40-percent limit, making a positive contribution to the Fund's net result. The decision to increase the strategic hedging of the Fund's allocation in eurozone equities from 50 percent to 100 percent further contributed to the positive result. By June 30 2012, the Fund's exposure in foreign currency was at 15 percent.

Commission costs

Commission costs of SEK 99 (102) million were charged against operating income, comprising external asset management costs of SEK 95 (97) million and custodial costs of SEK 4 (5) million. Commission costs for the external management of market-quoted assets partly comprise a fixed element and partly, for certain assignments, a performance-linked element. For the first half of 2012, the fixed element, reported as a commission cost, totalled SEK 93 (95) million, while the variable performance-linked element amounted to SEK 21 (43) 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 71 (74) million.

Of this sum, SEK 69 (72) million has been reported together with the investment's market value at the close of the first half.

A consequence of the fact that the Swedish National Pension Funds are subject to VAT on the procurement of services from foreign companies has led to an increase of SEK 6 million in the Second AP Fund's external asset management costs during the first half of the year. The Fund had an earlier VAT reserve of SEK 11 million, which could now be redeemed. This has resulted in a total net gain of SEK 5 million for the period.

Operating expenses

Operating expenses for the first six months of the year amounted to SEK 86 (79) million, personnel costs accounting for SEK 51 (46) million and other administration expenses for the remaining SEK 35 (33) million. A consequence of the fact that the Swedish National Pension Funds are subject to VAT on the procurement of services from foreign companies, over and above fees to external asset managers, has increased overall costs, resulting in an additional SEK 1 million in operating costs over the first six months of the year.

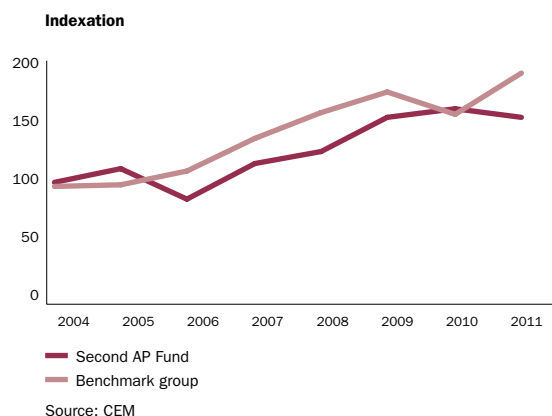
Asset management costs are expressed on a yearly basis and are defined both including and excluding commission costs and in relation to the Fund's average total assets. The Fund's asset management costs remained low during the first half of the year, amounting to 0.17 (0.16) percent of Fund capital, including commission costs. Excluding commission costs, this share amounted to 0.08 (0.07) percent.

Cost-efficient fund management

Subsequent to the 2009 change in strategy and the restructure of the Fund's portfolio management activities, the active return on the market worth of the portfolio of quoted assets was SEK 2.9 billion, excluding operating expenses. This may be contrasted with combined costs of SEK 1.2 billion for the portfolio of quoted assets, including operating expenses and commissions.

For a number of years, the Second AP Fund has collaborated with Cost Effectiveness Measurement Inc. (CEM) in analyzing the Fund's portfolio management costs. The CEM analyses address several factors that have a decisive impact on the overall cost of managing the Fund: the volume of assets under management, the degree of active management and the relative allocations for each class of asset. The Fund's costs are compared with those of an international group of fund managers of similar size and focus. For 2011 The Second AP Fund's costs have been matched against those of 18 other pension funds in five countries. The analysis demonstrates that the Fund has achieved a lower average cost level compared to the benchmark group (see graph).

Second AP Fund cost efficiency compared to international pension funds, 2004-2011



Personnel

As per June 30 2012, the Fund had 59 employees. At year-end 2011, the Fund numbered 58 employees.

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 42 of the Fund's annual report for 2011.

Board of directors

During the spring, the Swedish Government appointed three new members to the board of the Second AP Fund: Ulrika Boëthius, who chairs Finansförbundet (The Financial Sector Union of Sweden), appointed at the suggestion of TCO (Swedish Confederation of Professional Employees); Lenita Granlund, negotiations secretary, appointed at the suggestion of LO (Swedish Trade Union Federation) and Niklas Johansson, B.A. Märtha Josefsson, Lasse Thörn and Lillemor Smedenwall left the board.

Next financial report

The annual report for the financial year 2012 will be published in February 2013. Furthermore, a separate Corporate Governance Report will be published at the start of October 2012.

Gothenburg, August 24 2012

Eva Halvarsson
CEO

Income statement

SEK million	Jan-June 2012	Jan-June 2011	Jan-Dec 2011
Operating income			
Net interest income	3 027	2 772	6 569
Dividends received	2 162	2 252	2 976
Net result, quoted equities and participations	4 479	-796	-15 025
Net result, unquoted equities and participations	1 581	1 361	1 509
Net result, fixed-income securities	1 580	846	2 002
Net result, derivative instruments	218	335	-1 736
Net result, exchange gains	-551	-1 444	-571
Commission expenses	-99	-102	-210
Total operating income	12 397	5 224	-4 486
Operating expenses			
Personnel expenses	-51	-46	-90
Other administration expenses	-35	-33	-69
Total operating expenses	-86	-79	-159
NET PROFIT FOR THE PERIOD	12 311	5 145	-4 645

Balance sheet

SEK million	30 June 2012	30 June 2011	31 Dec 2011
Assets			
Equities and participations			
- quoted	105 928	109 456	105 062
- unquoted	17 989	14 416	15 487
Bonds and other fixed-income securities	92 393	92 716	86 613
Derivative instruments	9 059	8 092	7 993
Cash and bank balances	2 689	3 030	2 295
Other assets	626	931	9
Prepaid expenses and accrued income	1 440	1 577	1 858
TOTAL ASSETS	230 124	230 218	219 317
Fund capital and liabilities			
Liabilities			
Derivative instruments	2 289	1 828	2 614
Other liabilities	455	836	16
Deferred income and accrued expenses	114	86	65
Total liabilities	2 858	2 750	2 695
Fund capital			
Opening Fund capital	216 622	222 507	222 507
Net inflow to the national pension system	-1 667	-184	-1 240
Net profit for the period	12 311	5 145	-4 645
Total Fund capital	227 266	227 468	216 622
TOTAL FUND CAPITAL AND LIABILITIES	230 124	230 218	219 317

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

Five-year review

	30 June 2012	2011	2010	2009	2008
Fund capital, flows and net result, SEK m					
Fund capital	227 266	216 622	222 507	204 290	173 338
In- and outflows to/from the Swedish Pensions Agency and Special Management Fund	-1 667	-1 240	-4 041	-3 906	884
Net result for the period	12 311	-4 645	22 258	34 858	-55 058
Return, %					
Return total portfolio, excl. commission costs and operating expenses	5.8	-1.9	11.2	20.6	-24.0
Return total portfolio, incl. commission costs and operating expenses	5.7	-2.1	11.0	20.3	-24.1
Relative return on quoted assets excluding alternative investments, commission costs and operating expenses	0.5	-0.3	0.8	0.7	-1.8
Risk, %					
Active risk, ex post	0.4	0.3	0.3	0.6	1.0
Asset management costs relative to Fund capital, %					
Asset management costs relative to Fund capital, excl. commission costs	0.08	0.07	0.08	0.08	0.08
Asset management costs relative to Fund capital, incl. commission costs	0.17	0.17	0.17	0.18	0.16
FX exposure, %	15	16	12	10	12
Share of assets under external management (including investments in private-equity funds), %	28	29	23	24	22



Andra AP-fonden
Second Swedish National Pension Fund - AP2