



Half-year report

1 January – 30 June 2018

The Fund capital increased to SEK 352.4 billion

Andra AP-fonden (AP2) reported a total return of 2.9 per cent, including costs, for the first half of 2018. Relative to the benchmark index, the return was -0.1 per cent, excluding alternative investments and costs. The net result was SEK 9.8 billion, while the Fund's assets totalled SEK 352.4 billion by the end of the first half of 2018.

- AP2's assets under management totalled SEK 352.4 (336.3) billion as of 30 June 2018, against which net outflows to the national pension system were charged in an amount of SEK -3.3 (-3.7) billion.
- The Fund posted a first-half net result of SEK 9.8 (15.5) billion.
- The Fund's return on the total portfolio was 2.9 (4.8) per cent, after commission and operating expenses. Excluding these costs, the portfolio generated a return of 2.9 (4.9) per cent.
- The relative return on the portfolio of quoted assets, excluding alternative investments and costs, amounted to -0.1 (0.1) per cent.
- Operating expenses in terms of asset management costs continued to be low, amounting to 0.06 (0.06) per cent for the period.
- Over the past ten years, the Fund has generated an average return of 7.3 per cent per year and, including costs, over the past five years, an average of 9.5 per cent per year.
- Since its inception in 2001, the Fund has generated an overall return of SEK 244.5 billion, corresponding to an average annual return of 5.9 per cent, including costs.
- The Fund's level of currency exposure was 33 (32) per cent.

Key ratios

	Jan-June 2018	Jan-June 2017	Jan-Dec 2017
Fund capital carried forward, SEK billion	352.4	336.3	345.9
Net result for the period, SEK billion	9.8	15.5	28.8
Net payments to the national pension system, SEK billion	-3.3	-3.7	-7.4
Fund capital brought forward, SEK billion	345.9	324.5	324.5
Asset management costs: operating expenses, %	0.06	0.06	0.06
Asset management costs: commission expenses, %	0.08	0.08	0.09
<i>Total asset management costs, %</i>	<i>0.14</i>	<i>0.15</i>	<i>0.15</i>
Return on total portfolio after costs, %	2.9	4.8	9.0
Real return on total portfolio after costs, %	1.8	4.0	7.1
Annualised return after commission and operating expenses, 5.0 years, %	9.5	10.4	9.8
Annualised return after commission and operating expenses, 10.0 years, %	7.3	5.3	6.0
Real annualised return after commission and operating expenses, 10.0 years, %	6.4	4.2	5.0

Unless otherwise stated, the portfolio assets referred to in this report are "allocated exposures". In addition to booked fair values, these also refer to allocated (but not yet invested) liquidity for the specific class of asset, and the liquid funds held as collateral for positions already taken in derivative instruments. Classes of asset, derivative instruments and liquid funds are reported individually in the balance sheet at their fair values. All monetary amounts are expressed in Swedish kronor and abbreviated as SEK k (thousand), SEK million or SEK m (million) and SEK billion or SEK bn (thousand million). Figures in parentheses refer to the same period of time preceding year.

Half-year result

In the first half of 2018, the financial markets were on the one hand characterised by solid, coordinated global growth, which was beneficial to shares and other risk assets. On the other hand, growing concerns about the impact of trade conflicts between the USA and other countries on the real economy had the opposite effect on returns on the asset classes. The Swedish stock exchange developed well, whilst uncertainty surrounding the Riksbank's monetary policy created noticeable volatility in the value of the Swedish krona. The weakening of the krona during the first half of the year has had a positive impact on the return on foreign assets but this has partly been counteracted by the Fund's hedging policy and tactical positions.

The total yield of the Fund's Swedish and foreign equity portfolios for the first half of the year were 6.6 and 8.2 per cent respectively. Emerging market shares increased in value by 0.6 per cent. Swedish fixed-income securities returned 0.9 per cent, foreign government securities 7.4 per cent, foreign credits 5.6 per cent, green bonds 7.0 per cent and emerging-market bonds 2.6 per cent. The Fund's alternative investments – comprising Chinese domestic-market equities, unquoted real estate, private equity funds, alternative risk premiums and alternative credits – generated a return of 7.3 per cent.

The relative result was negative, at seven basis points.

Changes in the portfolio

During the first quarter, the Fund implemented extensive changes to its management of foreign equities by introducing new benchmarks for both emerging markets and developed markets. The new indices compile the majority of the alternative indices to which the Fund previously sought exposure in individual sub portfolios, turning them into one multiple factor index for developed countries and one for emerging countries. This also creates exposures to a number of sustainability factors. The latter have properties which, beyond improving the portfolio's sustainability characteristics, improve the expected return and risk. Among other things, the new indices entail a considerably lower carbon footprint. The absolute carbon footprint for the Fund's total equity portfolio as of 30 June 2018 is 1.9 million tCO₂e, compared with 2.6 million tCO₂e for all of 2017. Taken in relation to the Fund's holding of the companies' market value, the carbon dioxide intensity will be 18 tCO₂e/SEK million, compared with an intensity of 28 tCO₂e for 2017 as a whole.

In connection with South Africa's national debt being allocated a lower credit rating, exposure to government securities in emerging countries increased in local currency by 0.5 per cent, with a corresponding reduction of foreign shares. The purpose of the change was to achieve a sufficient margin in relation to the rule stipulating that at least 30 per cent of the capital should be placed in bonds classed as "investment grade". In addition, Venezuela was excluded from the Fund's benchmark for emerging-market bonds in hard currency.

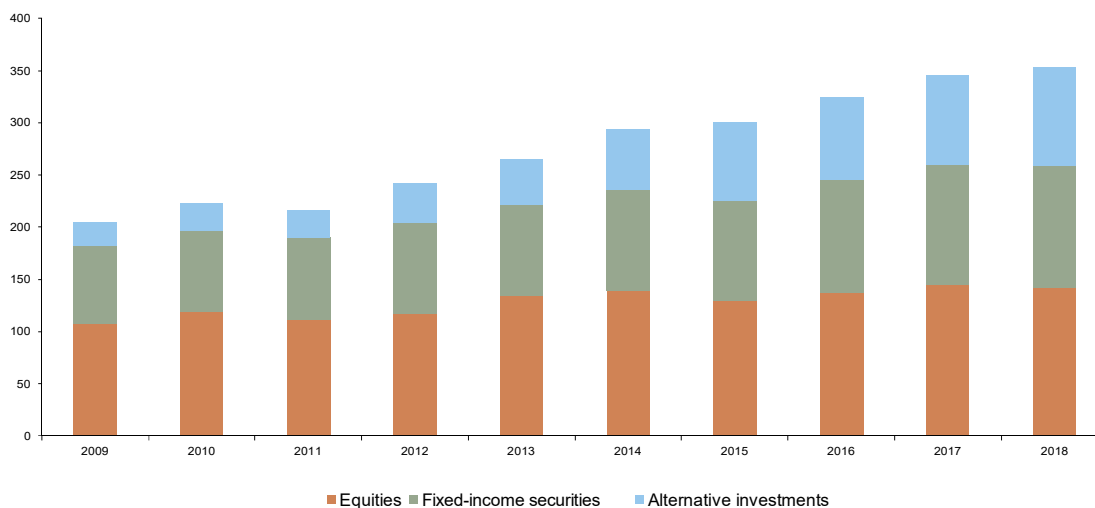
Summary of strategic portfolio, portfolio share and return, 30 June 2018

Asset class	Strategic portfolio, %	Share of portfolio, %	Market worth, SEK bn	Absolute return, %	Relative return, %	Active risk ex post*, %
Equities, Swedish	9.5	9.4	33.0	6.6	1.0	2.1
Equities, developed markets	21.5	21.5	75.8	8.2	0.1	0.4
Equities, emerging markets	11.0	10.2	35.8	0.6	0.8	0.6
Fixed-income, Swedish securities	12.0	11.0	38.6	0.9	-0.2	0.3
Fixed-income, global green bonds	1.0	1.0	3.7	7.0	0.3	0.4
Fixed-income, foreign govt. bonds	4.0	4.0	14.0	7.4	0.2	0.5
Fixed-income, foreign credits	10.5	10.5	37.1	5.6	0.0	0.2
Fixed-income, emerging markets	6.5	6.2	22.0	2.6	0.2	0.5
Total listed assets, excluding alternative investments, commission fees and operating expenses**				1.5	-0.1	0.4
Alternative investments**	24.0	26.2	92.4	7.3		
Total Fund capital, excluding commission fees and operating expenses**	100	100	352.4	2.9		

* Historical outcome, 12 months rolling.

** Including FX hedging.

Fund capital growth 2009 – 30 June 2018, SEK billion



Income statement and balance sheet

Income statement

SEK million	Jan-June 2018	Jan-June 2017	Jan-Dec 2017
Operating income			
Net interest income ¹	1 833	1 569	3 182
Dividends received	3 927	4 239	5 898
Net result, listed equities and participations	-2 043	12 490	22 967
Net result, non-listed equities and participations	2 781	1 580	4 283
Net result, fixed-income assets	-1 882	976	1 249
Net result, derivative instruments ¹	-1 788	-794	-1 825
Net result, exchange gain/loss	7 246	-4 362	-6 471
Commission expenses, net	-139	-138	-281
Total operating income	9 935	15 560	29 002
Operating expenses			
Personnel expenses	-65	-64	-134
Other administration expenses	-44	-40	-84
Total operating expenses	-109	-104	-218
Net result for the period	9 826	15 456	28 784

Balance sheet

SEK million	30 June 2018	30 June 2017	31 Dec 2017
Assets			
Equities and participations			
Listed	154 321	150 328	155 585
Non-listed	62 755	53 152	55 483
Bonds and other fixed-income assets	134 861	124 986	129 978
Derivative instruments	1 349	6 418	2 647
Cash and bank balances	2 345	2 943	2 810
Other assets	1 481	981	267
Deferred expenses and accrued income	1 772	1 569	1 763
TOTAL ASSETS	358 884	340 377	348 533
Fund capital and liabilities			
Liabilities			
Derivate instruments	4 281	1 589	1 490
Other liabilities	1 631	2 102	511
Deferred income and accrued expenses	535	395	601
Total liabilities	6 447	4 086	2 602
Fund capital			
Fund capital at beginning of year	345 931	324 522	324 522
Net payments to the national pension system	-3 320	-3 687	-7 375
Net result for the period	9 826	15 456	28 784
Total Fund capital	352 437	336 291	345 931
TOTAL FUND CAPITAL AND LIABILITIES	358 884	340 377	348 533

¹ As a result of implementation of IFRS 9 and amendments to IAS 1, effective from 1 January 2018, all interest components of derivative instruments are reported on the line "Net result, derivative instruments" instead of on the line "Net interest income". To facilitate comparisons with the preceding year, the comparison figures have been adjusted accordingly.

Ten-year performance review

	30 June 2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Fund capital, flows and net result, SEK m										
Fund capital	352 437	345 931	324 522	300 624	293 907	264 712	241 454	216 622	222 507	204 290
Net payments to the national pension system	-3 320	-7 375	-6 637	-4 944	-5 120	-6 880	-3 788	-1 240	-4 041	-3 906
Net result for the period	9 826	28 784	30 535	11 661	34 315	30 138	28 620	-4 645	22 258	34 858
Return, %										
Return on total portfolio excl. commission and operating expenses	2.9	9.1	10.5	4.1	13.3	12.8	13.5	-1.9	11.2	20.6
Return on total portfolio incl. commission and operating expenses	2.9	9.0	10.3	4.0	13.1	12.7	13.3	-2.1	11.0	20.3
Relative return on quoted assets, excl. alternative investments, commission and operating expenses *	-0.1	0.1	-0.4	0.9	0.5	0.4	1.1	-0.3	0.8	0.7
Annualised return after commission and operating expenses, 5.0 years	9.5	9.8	10.6	8.0	9.4	10.8	2.4	0.6	3.5	4.9
Annualised return after commission and operating expenses, 10.0 years	7.3	6.0	5.5	5.7	7.1	7.0	7.4	4.3	4.2	
Risk, %										
Active risk ex post	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.6
FX exposure	33	33	31	30	24	23	20	16	12	10
Share of external mandates, %	18	17	17	17	28	25	29	29	23	24
Management costs as % of assets under management										
Management costs, operating expenses	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.07	0.08	0.08
Management costs incl. commission expenses	0.14	0.15	0.15	0.18	0.17	0.17	0.16	0.17	0.17	0.18
No. of employees	67	67	66	64	63	59	60	58	54	53

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

Accounting and valuation principles

This half-year report has been compiled in accordance with the accounting and valuation principles developed jointly by Sweden's buffer funds. As a result of implementation of IFRS 9 and amendments to IAS 1, effective from 1 January 2018, all interest components of derivative instruments are reported on the line "Net result, derivative instruments" instead of on the line "Net interest income". To facilitate comparisons with the preceding year, the comparison figures have been adjusted accordingly.

Otherwise the accounting and valuation principles remain the same as the overview provided on page 86 in the 2017 Annual Report.

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

Board of Directors

During the spring, the Swedish Government appointed Martina Björkman Nyqvist and Hanse Ringström as new members of the Second AP Fund's board. Former Chair Marie S. Arwidson and member Ola Alfredsson left after eight years on the board. Former Vice Chair Jan Roxendal was appointed the new Chair and member Jeanette Hauff the new Vice Chair.

Next reporting period

The annual report, including a sustainability report, for the financial year 2018 will be published in February 2019.

Gothenburg, 21 August 2018

Eva Halvarsson
CEO