



# Half-year report

## 1 January – 30 June 2019

## The Fund capital increased to SEK 367.4 billion

Andra AP-fonden (AP2) reported a total return of 10.7 per cent, after costs, for the first half of 2019. The net result was SEK 35.6 billion, while the Fund's assets totalled SEK 367.4 billion at the end of the first half of 2019. Relative to the benchmark index, the return was -0.4 per cent, excluding alternative investments and costs.

- AP2's assets under management totalled SEK 367.4 (352.4) billion as of 30 June 2019. Net outflows to the national pension system were charged to the Fund's assets in an amount of SEK -3.0 (-3.3) billion.
- The Fund posted a first-half net result of SEK 35.6 (9.8) billion.
- The Fund's return on the total portfolio was 10.7 (2.9) per cent, after commission and operating expenses. Excluding these costs, the portfolio generated a return of 10.8 (2.9) per cent.
- The relative return on the portfolio of listed assets, excluding alternative investments and costs, amounted to -0.4 (-0.1) per cent.
- Operating expenses in terms of share of asset management costs continued to be low, amounting to 0.07 (0.06) per cent for the period.
- Over the last ten years, the Fund has generated an average return of 9.3 per cent per year, after costs, and over the past five years, an average of 7.6 per cent per year.
- Since its inception in 2001, the Fund has generated an overall return of SEK 266.0 billion, corresponding to an average annual return of 5.9 per cent, including costs.
- The Fund's level of currency exposure was 34 (33) per cent.

### Key ratios

	Jan-June 2019	Jan-June 2018	Jan-Dec 2018
Fund capital carried forward, SEK billion	367.4	352.4	334.8
Net result for the period, SEK billion	35.6	9.8	-4.3
Net outflows to the national pension system, SEK billion	-3.0	-3.3	-6.8
Fund capital brought forward, SEK billion	334.8	345.9	345.9
Asset management costs: operating expenses, %	0.07	0.06	0.06
Asset management costs: commission expenses, %	0.07	0.08	0.08
Total asset management costs, %	0.14	0.14	0.14
Return after costs, %	10.7	2.9	-1.3
Real return after costs, %	9.8	1.8	-3.3
Annualised return after costs, 5.0 years, %	7.6	9.5	6.9
Annualised return after costs, 10.0 years, %	9.3	7.3	8.8
Real annualised return after costs, 10.0 years, %	8.1	6.4	7.7

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), in accordance with the Swedish Language Council's recommendations. Figures in parentheses refer to the same period of time preceding year.

## Half-year result

The beginning of 2019 saw a strong recovery in the world markets after the major downturn at the end of 2018. However, this was followed by growing concern that global real economic growth may lose momentum. This concern was amplified by uncertainties regarding Brexit and, in May and June, the escalating trade conflict between USA and China. This political uncertainty played a part in a declining investment climate the world over. Inflation was low globally during the period. The central banks responded by adopting a much softer approach than last autumn. In turn, the monetary stimulus policy galvanised the stock markets, which continued to perform well, pressing interest rates down to very low levels. While the Swedish business cycle performed better than expected, the Riksbank's continuing high-stimulus policy contributed to a marked weakening of the krona and record-low interest rates in Sweden. The weakened krona contributed positively to the return on foreign assets but was partly undermined by the Fund's currency hedge policy and tactical positions.

The total return of the Fund's Swedish and foreign equity portfolios for the half-year was 19.8 and 21.5 per cent respectively. Emerging-market equities increased in value by 13.9 per cent. Swedish fixed-income securities returned 1.1 per cent, foreign government bonds 9.9 per cent, foreign credits 13.5 per cent, green bonds 10.5 per cent and emerging-market bonds 13.6 per cent. The Fund's alternative investments – comprising Chinese domestic market equities, non-listed real estate, private equity funds, alternative risk premiums and alternative credits – generated a return of 7.7 per cent.

The relative result was negative, at 43 basis points.

### Changes in the portfolio

In the first half of the year the Fund adjusted its listed portfolio to the recent years' favourable growth in holdings of real estate and private equity funds by reducing the allocation to Swedish and foreign equities and Swedish bonds. In addition, the share of capital allocated to emerging-market bonds issued in US dollars increased. The Board also decided that the Fund shall no longer be invested in tobacco companies or companies that are involved in the maintenance and modernisation of nuclear weapons systems.

## Sustainability

### Reorganisation

In order to continue successfully integrating sustainability issues into the management, AP2 completed a reorganisation in the spring and the Fund's sustainability analysts are now part of the asset management's strategy department.

### Training

All employees complete the Fund's obligatory sustainability training. An internal obligatory basic training in human rights was completed in the spring.

### Divestment from tobacco and nuclear weapons

With the support of the changes to the AP Funds Act regarding exemplary fund management, the Fund has divested from a total of about 60 tobacco companies and companies involved in the maintenance and modernisation of nuclear weapons systems.

### Voting at shareholders' general meetings

During the first six months AP2 voted at 74 general meetings in Swedish listed companies and at 742 foreign general meetings. At the beginning of July, the Fund published a separate AGM report for Swedish companies, [www.ap2.se/globalassets/hallbarhet-agarstyrning/stammorapporter/stammorapport\\_gb\\_190701.pdf](http://www.ap2.se/globalassets/hallbarhet-agarstyrning/stammorapporter/stammorapport_gb_190701.pdf)

### TCFD-compliant reporting

In February for the second year running, AP2 published a report in compliance with TCFD's (Task Force on Climate-related Financial Disclosure) recommendations, [www.ap2.se/globalassets/hallbarhet-agarstyrning/klimat/tcfd/ap2s-tcfd-reporting\\_190307\\_gb.pdf](http://www.ap2.se/globalassets/hallbarhet-agarstyrning/klimat/tcfd/ap2s-tcfd-reporting_190307_gb.pdf)

AP2 has jointly with AP1, AP3 and AP4 written letters to some 80 global companies, challenging them to adopt TCFD-compliant reporting. The AP Funds support the recommendations in TCFD's framework as they increase company transparency and, among other things, give investors the information they need to assess companies' climate risks and opportunities.

### International investment collaboration on safety at tailings dams

After the collapse of the Vale dam in Brumadinho, Brazil in January 2019 and its tragic consequences including loss of life, loss of livelihood and catastrophic environmental destruction, the AP Funds' Council on Ethics, the Church of England Pension Board and investors all around the world have launched a collaboration that focuses on safety in the mining industry. The parties that form part of the investment collaboration have around SEK 10,000 billion in assets under management. One general demand is the improved safety at mine tailings dams, and that a global public database of all tailings dams should be set up, which could be used by communities, governments, civil society organisations and investors. Letters have been sent to 680 mining companies, challenging them to publish technical information for every tailings dam that they fully own or co-own. The Council on Ethics and the Church of England's Pension Board are also PRI (Principles for Responsible Investment) representatives in an international working group that is working for the creation of a global safety standard for mine tailings dams. This would help improve the possibilities for preventing future dam accidents.

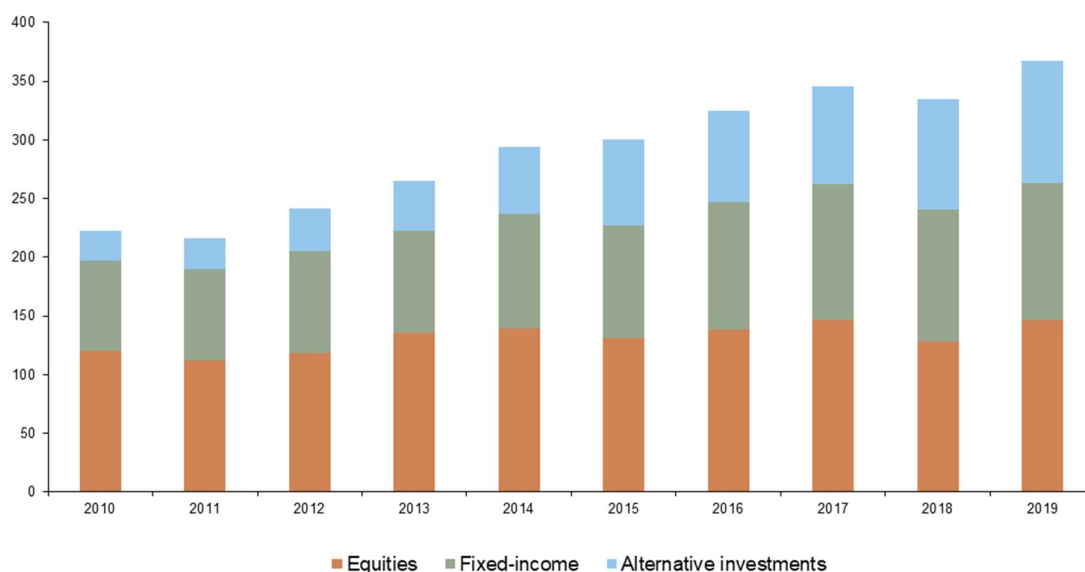
## Summary of strategic portfolio, portfolio share and return, 30 June 2019

Asset class	Strategic portfolio, %	Share of portfolio, %	Value of portfolio, SEK billion	Absolute return, %	Relative return, %	Active risk ex post*, %
Equities, Swedish	9.0	9.1	33.6	19.8	-1.1	2.1
Equities, developed markets	20.5	20.4	75.0	21.5	0.0	0.5
Equities, emerging markets	11.0	10.4	38.2	13.9	0.8	0.6
Fixed-income, Swedish securities	9.0	8.7	32.0	1.1	-0.9	0.4
Fixed-income, global green bonds	1.0	1.0	3.7	10.5	-0.9	0.3
Fixed-income, foreign govt. bonds	4.0	4.0	14.6	9.9	-0.5	0.6
Fixed-income, foreign credits	10.5	10.5	38.5	13.5	0.1	0.3
Fixed-income, emerging markets	7.5	7.5	27.4	13.6	0.0	0.5
<b>Total listed assets, excluding alternative investments, commission and operating expenses**</b>				<b>11.9</b>	<b>-0.4</b>	<b>0.5</b>
Alternative investments**	27.5	28.4	104.3	7.7		
<b>Total Fund capital, excluding commission and operating expenses**</b>	<b>100</b>	<b>100</b>	<b>367.4</b>	<b>10.8</b>		

\* Historical outcome, 12 months rolling.

\*\* Including FX hedging.

## Fund capital growth 2010 – 30 June 2019, SEK billion



## Income statement and balance sheet

### Income statement

SEK million	Jan-June 2019	Jan-June 2018	Jan-Dec 2018
<b>Operating income</b>			
Net interest income	1 873	1 833	3 536
Dividends received	3 905	3 927	3 931
Net result, listed equities and participations	18 180	-2 043	-17 029
Net result, non-listed equities and participations	2 294	2 781	5 637
Net result, fixed-income securities	4 978	-1 882	-2 532
Net result, derivative instruments	247	-1 788	-3 722
Net result, exchange gains/losses	4 402	7 246	4 348
Commission expenses, net	-137	-139	-280
<b>Total operating income</b>	<b>35 742</b>	<b>9 935</b>	<b>-4 111</b>
<b>Operating expenses</b>			
Personnel expenses	-72	-65	-127
Other administration expenses	-44	-44	-92
<b>Total operating expenses</b>	<b>-116</b>	<b>-109</b>	<b>-219</b>
<b>NET RESULT FOR THE PERIOD</b>	<b>35 626</b>	<b>9 826</b>	<b>-4 330</b>

### Balance sheet

SEK million	30 June 2019	30 June 2018	31 Dec. 2018
<b>Assets</b>			
Equities and participations			
Listed	156 203	154 321	135 984
Non-listed	71 830	62 755	65 000
Bonds and other fixed-income securities	134 011	134 861	127 416
Derivative instruments	2 715	1 349	2 891
Cash and bank balances	2 335	2 345	3 070
Other assets	1 702	1 481	373
Prepaid expenses and accrued income	1 818	1 772	1 764
<b>TOTAL ASSETS</b>	<b>370 614</b>	<b>358 884</b>	<b>336 498</b>
<b>Fund capital and liabilities</b>			
<b>Liabilities</b>			
Derivative instruments	1 026	4 281	599
Other liabilities	1 648	1 631	341
Deferred income and accrued expenses	526	535	730
<b>Total liabilities</b>	<b>3 200</b>	<b>6 447</b>	<b>1 670</b>
<b>Fund capital</b>			
Fund capital brought forward	334 828	345 931	345 931
Net payments to the national pension system	-3 040	-3 320	-6 773
Net result for the period	35 626	9 826	-4 330
<b>Total Fund capital</b>	<b>367 414</b>	<b>352 437</b>	<b>334 828</b>
<b>TOTAL FUND CAPITAL AND LIABILITIES</b>	<b>370 614</b>	<b>358 884</b>	<b>336 498</b>

## Ten-year performance review

	30 June 2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Fund capital, flows and net result, SEK m</b>										
Fund capital	367 414	334 828	345 931	324 522	9 935	293 907	264 712	241 454	216 622	222 507
Net outflows to the national pension system	-3 040	-6 773	-7 375	-6 637	-4 944	-5 120	-6 880	-3 788	-1 240	-4 041
Net result for the period	35 626	-4 330	28 784	30 535	11 661	34 315	30 138	28 620	-4 645	22 258
<b>Return, %</b>										
Return on total portfolio excluding commission and operating expenses	10.8	-1.2	9.1	10.5	4.1	13.3	12.8	13.5	-1.9	11.2
Return on total portfolio including commission and operating expenses	10.7	-1.3	9.0	10.3	4.0	13.1	12.7	13.3	-2.1	11.0
Relative return on listed assets, excluding alternative investments, commission and operating expenses*	-0.4	-0.2	0.1	-0.4	0.9	0.5	0.4	1.1	-0.3	0.8
Annualised return after costs, 5.0 years, %	7.6	6.9	9.8	10.6	8.0	9.4	10.8	2.4	0.6	3.5
Annualised return after costs, 10.0 years, %	9.3	8.8	6.0	5.5	5.7	7.1	7.0	7.4	4.3	4.2
<b>Risk, %</b>										
Active risk ex post	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
FX exposure	34	32	33	31	30	24	23	20	16	12
<b>Share of external management, %</b>										
	19	17	17	17	17	28	25	29	29	23
<b>Total asset management costs, %</b>										
Asset management costs operating expenses	0.07	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.07	0.08
Asset management costs, incl. commission expenses	0.14	0.14	0.15	0.15	0.18	0.17	0.17	0.16	0.17	0.17
<b>Number of employees</b>										
	70	70	67	66	64	63	59	60	58	54

\*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 prepared jointly by the First to Fourth AP Funds. The principles remain the same as the overview provided on page 82 in the 2018 Annual Report.

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

**Board of Directors**

In the spring, the Swedish Government appointed Lin Lerpold as new member and Vice Chair of AP2's Board. Former Vice Chair, Jeanette Hauff, left after nine years on the Board.

**Next reporting period**

The annual report, including a sustainability report, for the financial year 2019 will be published in February 2020.

Gothenburg, 28 August 2019

Eva Halvarsson  
CEO