



AP2

Andra
AP-fonden

HALF-YEAR REPORT
1 JANUARY - 30 JUNE 2020

First half-year strongly affected by COVID-19

Andra AP-fonden (AP2) reported a total return of -5.1 per cent, after costs, for the first half of 2020. The net result was SEK -19.3 billion, while the Fund's assets totalled SEK 357.9 billion at the end of the first half of 2020. Relative to the benchmark index, the return was -0.1 per cent, excluding alternative investments and costs.

- AP2's assets under management totalled SEK 357.9 (367.4) billion as of 30 June 2020. Net outflows to the national pension system were charged to the Fund's assets in an amount of SEK -4.2 (-3.0) billion.
- The Fund posted a first-half net result of SEK -19.3 (35.6) billion.
- The Fund's return on the total portfolio was -5.1 (10.7) per cent, after commission and operating expenses. Excluding these costs, the portfolio generated a return of -5.0 (10.8) per cent.
- The relative return on the portfolio of listed assets, excluding alternative investments and costs, amounted to -0.1 (-0.4) per cent.
- Operating expenses in terms of share of asset management costs continued to be low, amounting to 0.06 (0.07) per cent for the period.
- Over the last ten years, the Fund has generated an average return of 7.7 per cent per year, after costs, and over the past five years, an average of 5.3 per cent per year.
- Since its inception in 2001, the Fund has generated an overall return of SEK 264.1 billion, corresponding to an average annual return of 5.6 per cent, including fund costs.
- The Fund's level of currency exposure was 33 (34) per cent.

Key ratios

	Jan.-June 2020	Jan.-June 2019	Jan.-Dec. 2019
Fund capital carried forward, SEK billion	357.9	367.4	381.3
Net result for the period, SEK billion	-19.3	35.6	53.0
Net outflows to the national pension system, SEK billion	-4.2	-3.0	-6.5
Fund capital brought forward, SEK billion	381.3	334.8	334.8
Asset management costs: operating expenses, %	0.06	0.07	0.07
Asset management costs: commission expenses, %	0.08	0.07	0.08
<i>Total asset management costs, %</i>	<i>0.14</i>	<i>0.14</i>	<i>0.15</i>
Return after costs, %	-5.1	10.7	15.9
Real return after costs, %	-5.7	9.8	13.9
Annualised return after costs, 5 years, %	5.3	7.6	7.4
Annualised return after costs, 10 years, %	7.7	9.3	8.4
Real annualised return after costs, 10 years, %	6.6	8.1	7.2

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 global outbreak of COVID-19 has impacted very strongly on the world's securities markets trend and thereby the Fund's portfolio value. In the first quarter, the value of the majority of risk-bearing instruments fell to an extent that in certain parts overshadowed the course of events during the global financial crisis. The virus outbreak and the measures to limit it resulted in the strongest real economic contraction since World War II. Central banks in most countries reacted with monumental monetary stimulus measures, primarily to restore liquidity in the financial markets where trade had almost ground to a halt, and also to counteract the adverse effects on growth. Governments worldwide launched monumental fiscal policy measures to bolster demand and the labour markets. By the end of the first half of the year, the majority of economies had begun to recover, although economic activity was still far from where it was at the end of 2019. Due to the major stimulus measures and signs that the spread of COVID-19 was under more control, the financial markets recovered with great speed in the second quarter, especially in developed countries.

For emerging markets, with the exception of China, the financial recovery has been weaker. At the end of June, for example, several developed stock markets were close to, or even above, their level at the beginning of the year, which was not the case in emerging countries.

The stock market upturn was largely driven by emerging equities in the technology sector. This has adversely affected the Fund's equity portfolios, which avoid concentrating excessive holdings in large companies, and instead overweighting equities with a low valuation.

In the bond markets, the central bank stimulus packages have resulted in very low interest rates. After considerable market turbulence in March, the difference in interest rates between government bonds and corporate bonds had returned to reasonable levels in June. The Swedish krona, which weakened significantly when the crisis flared up, ended the half-year stronger than it started.

The total return of the Fund's Swedish and foreign equity portfolios for the half-year was -5.5 and -11.4 per cent respectively. Emerging-market equities declined in value by -15.5 per cent. Swedish fixed-income securities returned 1.0 per cent, foreign government bonds 4.5 per cent, foreign credits 3.1 per cent, green bonds 2.2 per cent and emerging-market bonds -5.5 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 -2.7 per cent.

The relative result was negative, at 8 basis points.

Changes in the portfolio

During the first half of the year, the decisions taken by the Board of Directors in December 2019 were implemented. Allocations to private equity funds and foreign real estate were increased, which was financed by a reduction in the allocation to Swedish bonds. The allocation to Chinese A-shares was also increased, which was financed by a reduction in the allocation to shares in other emerging countries. Regarding index selection, a further developed multi-factor index for foreign equities was implemented and the switch to an index with a sustainability focus for bonds in local currency in emerging countries. During the first half of the year, the decided target allocation to sustainable infrastructure has also started to be implemented.

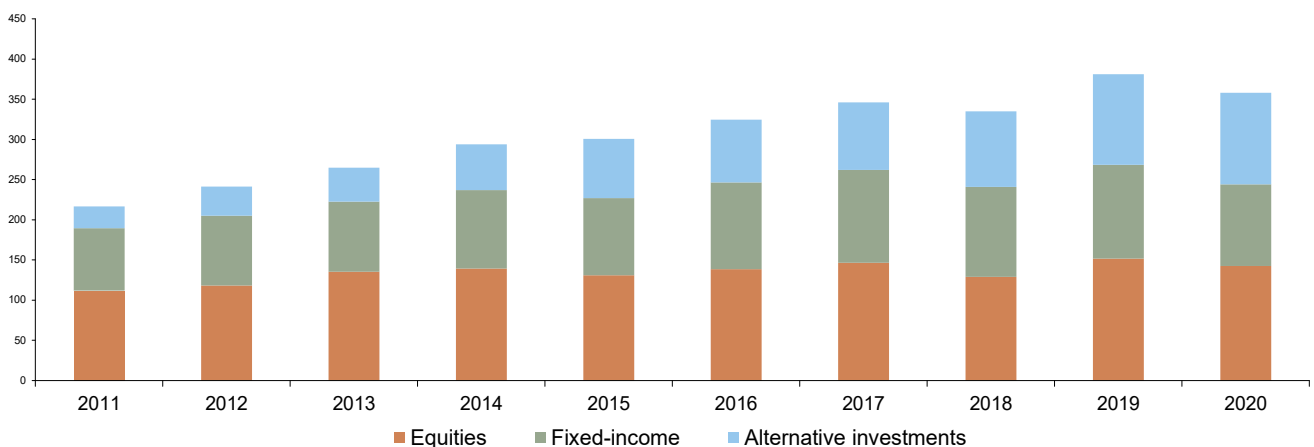
Summary of strategic portfolio, portfolio share and return, 30 June 2020

Asset class	Strategic portfolio, %	Share of portfolio, %	Value of portfolio, SEK billion	Absolute return, %	Relative return, %	Active risk ex post*, %
Equities, Swedish	9.0	9.2	33.0	-5.5	0.5	2.9
Equities, developed markets	20.5	20.8	74.3	-11.4	-0.5	0.6
Equities, emerging markets	10.5	9.8	35.2	-15.5	-0.4	0.6
Fixed-income, Swedish securities	6.5	6.3	22.7	1.0	0.0	0.6
Fixed-income, global green bonds	3.0	2.7	9.6	2.2	0.1	0.5
Fixed-income, foreign government bonds	4.0	3.6	12.9	4.5	0.1	0.7
Fixed-income, foreign credits	9.5	8.8	31.6	3.1	0.8	0.7
Fixed-income, emerging markets	7.5	6.9	24.6	-6.0	-0.6	0.8
Total listed assets, excluding alternative investments, commission and operating expenses**				-5.8	-0.1	0.6
Alternative investments**	29.5	31.9	114.0	-2.7		
Total Fund capital, excluding commission and operating expenses**	100	100	357.9	-5.0		

* Historical outcome, 12 months rolling.

** Including FX hedging.

Fund capital growth 2011 – 30 June 2020, SEK billion



Income statement and balance sheet

Income statement

SEK million	Jan.-June 2020	Jan.-June 2019	Jan.-Dec. 2019
Operating income			
Net interest income	1 586	1 873	3 836
Dividends received	1 829	3 905	5 754
Net result, listed equities and participations	-14 162	18 180	27 129
Net result, non-listed equities and participations	-1 571	2 294	6 278
Net result, fixed-income securities	1 456	4 978	6 108
Net result, derivative instruments	-2 158	247	-932
Net result, exchange gains/losses	-5 981	4 402	5 401
Commission expenses, net	-142	-137	-292
Total operating income	-19 143	35 742	53 282
Operating expenses			
Personnel expenses	-74	-72	-147
Other administration expenses	-45	-44	-93
Total operating expenses	-119	-116	-240
NET RESULT FOR THE PERIOD	-19 262	35 626	53 042

Balance sheet

SEK million	30 June 2020	30 June 2019	31 Dec. 2019
Assets			
Equities and participations			
Listed	152 705	156 203	161 554
Non-listed	78 334	71 830	78 168
Bonds and other fixed-income securities	116 264	134 011	133 875
Derivative instruments	6 997	2 715	5 734
Cash and bank balances	5 670	2 335	3 908
Other assets	957	1 702	206
Deferred expenses and accrued income	1 524	1 818	1 721
TOTAL ASSETS	362 451	370 614	385 166
Fund capital and liabilities			
Liabilities			
Derivative instruments	2 188	1 026	1 537
Other liabilities	2 165	1 648	1 589
Deferred income and accrued expenses	210	526	690
Total liabilities	4 563	3 200	3 816
Fund capital			
Fund capital carried forward	381 350	334 828	334 828
Net payments to the national pension system	-4 200	-3 040	-6 520
Net result for the period	-19 262	35 626	53 042
Total Fund capital	357 888	367 414	385 350
TOTAL FUND CAPITAL AND LIABILITIES	362 451	370 614	385 166

Ten-year performance review

	30 June 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Fund capital, flows and net result, SEK m										
Fund capital	357 888	367 414	334 828	345 931	324 522	300 624	293 907	264 712	241 454	216 622
Net outflows to the national pension system	-4 200	-3 040	-6 773	-7 375	-6 637	-4 944	-5 120	-6 880	-3 788	-1 240
Net result for the period	-19 262	35 626	-4 330	28 784	30 535	11 661	34 315	30 138	28 620	-4 645
Return, %										
Return on total portfolio excl. commission and operating expenses	-5.0	10.8	-1.2	9.1	10.5	4.1	13.3	12.8	13.5	-1.9
Return on total portfolio incl. commission and operating expenses	-5.1	10.7	-1.3	9.0	10.3	4.0	13.1	12.7	13.3	-2.1
Relative return on listed assets, excl. alternative investments, commission and operating expenses*	-0.1	-0.4	-0.2	0.1	-0.4	0.9	0.5	0.4	1.1	-0.3
Annualised return after costs, 5.0 years, %	5.3	7.6	6.9	9.8	10.6	8.0	9.4	10.8	2.4	0.6
Annualised return after costs, 10.0 years, %	7.7	9.3	8.8	6.0	5.5	5.7	7.1	7.0	7.4	4.3
Risk, %										
Active risk ex post	0.6	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
FX exposure	33	34	32	33	31	30	24	23	20	16
Share of external management, %										
	20	19	17	17	17	17	28	25	29	29
Total asset management costs, %										
Asset management costs operating expenses	0.06	0.07	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.07
Asset management costs, incl. commission expenses	0.14	0.14	0.14	0.15	0.15	0.18	0.17	0.17	0.16	0.17
Number of employees										
	71	71	70	67	66	64	63	59	60	58

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

Accounting and valuation principles

The interim report has been prepared in accordance with the accounting and valuation principles drawn up jointly by the First to Fourth AP Funds. The principles remain the same as the overview provided on page 74 in the 2019 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 Åsa Erba-Stenhammar as a new member of AP2's Board of Directors. Former member, Ulrika Boëthius, left the Board after eight years.

Sustainability

AP2's sustainability work during the first half of 2020 is published in a separate report, www.ap2.se

Next reporting period

The Annual Report for the financial year 2020 will be published in February 2021.

Gothenburg, 1 September 2020

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