

Andra AP-fonden contributes to balance in the pension system



The public income pension system is a distribution system whereby pension disbursements are covered by current pension contributions. Through exemplary management the buffer funds can increase the value of the system's assets. As a buffer fund, with its return AP2 must make a long-term contribution to balance in the pension system, and thereby sound pension development.



The mission of the AP Funds is to be of the greatest possible benefit to the pension system. AP2 has specified its terms of reference as the aim to minimise the consequences of the automatic balancing, the 'brake', over 30 years. This takes place using the Fund's proprietary ALM model. Based on its simulations, the portfolio structure that is expected to entail the lowest future pension losses, due to the brake, is created.

Unless otherwise stated, the portfolio assets referred to in this report are "allocated exposures". In addition to recognised fair values, these also refer to allocated (but not yet invested) liquidity for the specific class of asset, and other 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 (khousand), SEK million or SEK m (million), and SEK billion or SEK m (m

Andra AP-fonden's Annual Report covers the period January–December 2020 and was published on 12 February 2021.

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The year in brief

386.2

FUND CAPITAL

The Fund capital totalled **SEK 386.2** (381.3) billion on 31 December 2020.

12.8

PROFIT/LOSS

The profit for the year amounted to **SEK 12.8 (53.0) billion**.

0.05

RELATIVE RETURN

The relative return on the Fund's total portfolio, excluding alternative investments and operating expenses, amounted to **0.05** (**-0.90**) **per cent**.

0.06

OPERATING EXPENSES

Operating expenses, expressed as a share of management cost, remained low and amounted to **0.06 (0.07) per cent**.

-7.9

NET OUTFLOWS TO THE NATIONAL PENSION SYSTEM

Net outflows to the national pension system of **SEK –7.9 (–6.5) billion**.

3.5

TOTAL RETURN

The return on the total portfolio was **3.5** (**15.9**) **per cent**, including commission fees and operating expenses. Excluding these expenses, the portfolio returned **3.7** (**16.1**) **per cent**.

THE YEAR IN BRIEF

Five-year overview, financial key ratios

	2020	2019	2018	2017	2016
Fund capital, flows and results, SEK million					
Fund capital	386 224	381 350	334 828	345 931	324 522
Net outflows to the national pension system	-7 902	-6 520	-6 773	− 7 375	-6 637
Net result for the year	12 776	53 042	-4 330	28 784	30 535
Return, %					
Return on total portfolio before commission expenses and operating expenses	3.7	16.1	-1.2	9.1	10.5
Return on total portfolio after commission expenses and operating expenses	3.5	15.9	-1.3	9.0	10.3
Annualised return after commission expenses and operating expenses, 5 years	7.3	7.4	6.9	9.8	10.6
Annualised return after commission expenses and operating expenses, 10 years	7.7	8.4	8.8	6.0	5.5
Risk, %					
Standard deviation ex-post, total portfolio ¹	6.2	6.4	7.2	8.9	8.7
Sharpe ratio ex-post, total portfolio	0.4	4.0	neg	2.9	1.9
Expense ratio as a % of managed capital					
Expense ratio, including commission expenses	0.14	0.15	0.14	0.15	0.15
Expense ratio, excluding commission expenses	0.06	0.07	0.06	0.06	0.07
Currency exposure, %	34	34	32	33	31

¹ Calculated on a 10-year quarterly return.

Key figures for sustainability

	2020	2019
Andra AP-fonden's listed equity portfolio ¹		
The equity portfolio's absolute emissions of greenhouse gases (Scope 1 and 2) (million tCO₂e)	1.35	1.74
Carbon intensity relative to ownership share of the company's market value (tCO₂e/MSEK)	8.20	11.52
Carbon intensity relative to ownership share of the company's turnover (tCO₂e/MSEK)	11.50	13.25
Carbon intensity, weighted average (tCO2e/MSEK)	12.85	15.20
Market value of the Fund's portfolio covered by CO₂e data (SEK billion)	164	151
Business travel		
Proportion of train journeys between Gothenburg and Stockholm, %	98	97
Carbon emissions from:		
Rail, domestic, tonnes of CO₂e	0	0
Air, domestic, tonnes of CO ₂ e	0	1
Air, abroad, tonnes of CO ₂ e	2	187
Internal environmental indicators		
Electricity, kWh	80 000	128 300
Renewable electricity, %	100	100
Copying paper, purchased (A4), kg	0	191
Number of printouts	31 000	70 900
Other		
Female staff, %	34	34
Proportion of women in senior positions, %	29	28
Proportion of employees who have undergone training in human rights, %	100	99

¹ Carbon dioxide measurements as from 2020 are based on a broader universe of carbon dioxide data and a refined method of estimating carbon emissions for non-reporting companies. The carbon dioxide measurements for 2019 presented here have been recalculated to facilitate comparison with 2020. Carbon dioxide data reported for previous years is not directly comparable.

COVID-19

The focus during the year was on all employees' well-being and on doing what we could to help to reduce the spread of infection in society. We also needed to ensure that we could deliver in accordance with our important mission and conduct our activities on an effective and secure basis.

When the pandemic broke out, we divided the Fund into two teams that would each separately be able to run the Fund. One team worked from home, while the other team worked from the office, and after two weeks the roles were reversed. We did this in a situation where the Fund's IT platform had been subject to development for a couple of years. On that first morning, on 16 March, when we switched from everyone working at the office to half of us working from home, it felt a little strange, but also safe. When we decided, at the beginning of November, that in principle everyone would be working from home for a period, there was no doubt at all that we would still be able to manage the Fund as well as usual. This is not to say that I think this is a solution that is

viable in the long term, for a number of different reasons.

In financial terms, the year was strongly affected by COVID-19 and its impact on the performance of the world's security markets, and thereby the Fund's portfolio value. This naturally made high, and to some extent

new, demands on us.

As strong owners

and investors, we were able to contribute to alleviating the effects of COVID-19, while also delivering on our mission. In March, we invested USD 17 million in a social bond issued by the International Finance Corpora-

tion (IFC), which is part of the World

Bank. The bond issue, which in total amounts to USD 1 billion, is part of the IFC's original undertaking to allocate USD 12 billion as immediate support

"In financial terms, the year was strongly affected by COVID-19 and its impact on the performance of the world's security markets, and thereby the Fund's portfolio value."

> to help countries handle the healthrelated and economic effects of the COVID-19 pandemic.

During the year we also took part in a number of new issues to provide long-

term support to sound companies in these uncertain times.

Once we have overcome the pandemic, the world will probably have

changed in ways that we cannot comprehend today. We will probably choose to work from home to a greater extent, hold virtual meetings instead of travelling all over the world, and avoid shaking hands or hugging, and our business models will

also change. The need for sustainable development is probably more important now than ever before.

Even though I am concerned about the course of the pandemic and the

welfare of our employees, families and friends, I am confident that we will continue to deliver and further develop our work for all of Sweden's current and future pensioners.

I would like to take this opportunity to express my sincere gratitude for all of our employees' extraordinary efforts, positive attitude, and ability to find solutions and support each other, even in these very alarming times.

I am very proud of all of our employees and of being part of the AP2 team.

Eva Halvarsson, CEO, Andra AP-fonden

"It is worthwhile

to reflect on

the speed of

the recovery."



A special year strongly affected by COVID-19

In many ways, 2020 was a very special year that was strongly affected by COVID-19. Despite everything that happened in the world around us, we were able to achieve many of the plans we laid. Among other things, we took important steps in further developing our management, and we hope and believe that this will contribute positively to returns and to a more sustainable society.

Uncertainty concerning the course of future events was stressful, and this was reflected in market performance and in our portfolio. We closed the year at +3.5 per cent and even though this is an improvement on our half-year result, it still means that we have not achieved our expected long-term real rate of return of 4.5 per cent. The ongoing internal management decisions of both a tactical and dynamic nature, and the excess return from our Chinese management, also generated a profit of around SEK 2.6 billion for the portfolio, which is very positive.

Rapid recovery

It is worthwhile to reflect on the speed of the recovery. This was very rapid, particularly when compared with the 2008–2009 financial crisis. The immediate impact of COVID-19 and the global battle to reduce infection rates

is already apparent from the economic statistics, with GDP losses at recordhigh levels. At the same time, both governments and central banks pumped money into the economy, which instilled new

confidence in the markets. The longterm effects still remain to be seen.

The markets' recovery was not only very rapid, but also very concentrated. A small number of technical stocks – Alphabet, Amazon, Apple, Facebook,

Netflix and Microsoft – accounted for a large share of S&P 500's earnings during the year, and now account for just

over 20 per cent of the full index. We take positions in accordance with our proprietary multi-factor index, which entails that we are less exposed to these particular stocks. Our index overweights

low-valued companies and underweights large, high-valued companies. We expect that over time this will give a better return in relation to risk. This year, the outcome was negative for us, but we assess that conditions will be CHIEF EXECUTIVE'S REVIEW

favourable for value stock in the coming year, and we are still convinced that our portfolio is the best to achieve the required risk-adjusted return, and for Sweden's pensioners in the long term.

Sustainability continues to develop

As in several recent years, another major theme in 2020 was sustainability, which is an area that is evolving rapidly. For many years, we have worked to integrate sustainability throughout our management, and it is pleasing to note the increasing expertise of both investors and companies, and how discussion of these issues is becoming more and more nuanced.

It is also positive that steps are now being taken to standardise sustainability reporting. Together with companies' increasing openness about how they view and work with sustainability issues, this enables us as investors to better analyse the risks and opportunities available, and thereby increase the financial markets' contribution to sustainable development.

It makes me very proud that, during the autumn, we adapted our internally managed holdings of global equities and corporate bonds to be in line with the EU Paris-Aligned Benchmark (PAB), without relinquishing any of the portfolios' return and risk characteristics. As far as we are aware, this adjustment of the portfolio is unique, since it includes holdings of both corporate bonds and equities. This is part of the work that commenced back in 2013, when we began to analyse climaterelated financial risks, and in 2016, when we decided to have a portfolio in line with the Paris Agreement. In 2021, our ambition is to also implement such indices for our holdings in Swedish equities. Our quantum department must be praised for their work on creating these indices.

We have also worked on a model to calculate various countries' risks in the human rights area. This is a very complex area to handle, while there is also a great need for systematic evaluation.

Strategic roadmap

Every three years, we create a new strategic roadmap, and we had great plans for this work in 2020. We kicked off the work at the end of January, and many of our employees were involved in analysis of business intelligence, working in six different reconnaissance groups. Each group was to immerse itself in a specific area - such as macroeconomics, digital opportunities or market structures and present their conclusions at the start of June. Despite the events of the spring, we kept to the timetable, and this work gave a lot of useful insight and strengthened our internal cooperation across departments, while providing a very sound basis for our new three-year roadmap.

Value of digital working methods

2020 was also a year in which we all excelled at working digitally. I want to take the opportunity to praise our IT department for their efforts to keep our systems up and running at all times – assisting us users with expert tips and tricks – in ever-changing circumstances.

I am convinced that some of the working methods to which we quickly adapted during 2020 will become permanent. In one sense, they increased our opportunities to attend various international conferences. I, personally, was able to attend conferences that I would not otherwise have been able to choose – but via a digital connection I could now spend the morning in Beijing and the afternoon in Washington. This is a positive outcome from the digital transformation.

Importance of meeting up

In future, I believe that we will travel less. Spending the day on a meeting in Paris or London is now firmly in the past. For many meetings for the purpose of coordination, the new normal is to attend virtually. In-person meetings will continue to be important, however, and, in many cases, vitally important, such as when decisions are taken on major new investments. The same applies to our office. Even though we have become experts at working remotely, I find it hard to see

how we can replace the office as a centre for creativity, inspiration and social interaction.

Our organisation functioned very well in 2020 and everyone did a really fantastic job. We should also remember that this is a consequence of how, for many years, we have worked on a deliberate, long-term basis to develop our culture and promote our values as a firm foundation for everything we do. Now that we have been tested, the value of this work is highly evident. But I am quite convinced that we still need to meet up in person in order to continue to work together as a closely knit team.

As I thank all of our employees for their fantastic efforts behind their screens throughout most of 2020, I really look forward to meeting them all a lot more frequently during 2021, so that together we can continue our work for Sweden's pensioners in the same quality and with the same creativity as before.

Eva Halvarsson, CEO, Andra AP-fonden



Targeted value creation

Andra AP-fonden's activities and management are based on the Fund's mission from the Swedish Parliament. The Fund is a leading specialist in the Swedish pension system and seek to be a world-class asset manager. Andra AP-fonden is a global leader in integrating sustainability in its investments, for the benefit of the pension system. The Fund is a long-term and responsible asset manager.

→ AP2 is driven by

MISSION AND GOAL

AP2 shall manage its assets to provide the greatest possible benefit for the pension system. The effects of the automatic balancing on pensions must be limited, as it is only through this that the AP Funds' returns are linked to pension disbursements.

→ AP2 is affected by

MACRO

- Market
- Trends and driving forces
- ▶ Read more on pages 11–15.

RESOURCES

- Employees
- Costs
- IT
- ▶ Read more on pages 36-40.

--- and creates value through

STRATEGY AND MANAGEMENT

Returns should be high and the total risk level should be low, measured in outgoing pensions.

INVESTMENT STRATEGY

The starting point for AP2's investment strategy is a thorough analysis of the pension system and its needs in the coming 30 years. The most important success factors for the investment strategy are summarised in the Fund's investment beliefs. The AP Funds must also adhere to the investment rules summarised on page 19.

▶ Read more on pages 25-27.

ALM MODEL

Supported by the proprietary ALM model, the long-term strategic portfolio for which the expected return and risk level are of the greatest benefit is selected.

▶ Read more on pages 21–22.

VISION 2023

The Fund's strategic roadmap for 2023 was adopted during the year.

▶ Read more on pages 18-20.

PORTFOLIO

The Fund invests worldwide, in many asset classes.

▶ Read more on pages 29–33.



SWEDISH EQUITIES



ALTERNATIVE INVESTMENTS



QUANTITATIVE MANAGEMENT



MEFIX

→ Outcomes

7.9

VALUE PAID TO PENSIONERS, SEK BILLION.

12.8

PROFIT, SEK BILLION.

3.5

TOTAL RETURN, PER CENT.

ANDRA AP-FONDEN'S ANNUAL REPORT 2020

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Deep recession and plummeting markets, followed by vaccines and recovery

Focus in 2020 was on the pandemic, which brought the deepest recession in the post-war period, but also plummeting markets and rising unemployment. The services sector, which is normally less affected by an economic downturn, felt the full brunt of the recession. The travel and hospitality industry collapsed. The summer brought a slight improvement and cyclical recovery, but the higher infection rates during the autumn forewarned a grim winter. The news of reliable vaccine candidates brought new hope and the first vaccinations were given at the end of December. The themes for 2021 are vaccines, re-opening and recovery.



Abrupt braking and deep recession

2020 commenced with positive cyclical indicators and rising exchanges, leading to record highs in mid-February. As COVID-19 began to gain a foothold outside China, followed by lockdowns in many economies, this instigated the deepest recession since World War II. An economic downturn of this magnitude is unprecedented in modern times. The fact that this process was so strong and rapid was naturally related to how one country after the other went into lockdown. China set the course, as their drastic lockdown measures clearly checked infection rates. The financial markets plummeted, and the rate at which exchanges fell was unprecedented.

Rapid stimulus and support measures

Both central banks and governments rapidly adopted stimulus and support measures. Central banks in most developed countries cut policy rates to close to zero, while ensuring sufficient liquidity in the banking system, among other things by buying up various types of securities. The central banks would not have taken such resolute action so quickly without the lessons learned from the financial and euro crises. The total extent of the stimulus measures soon exceeded the levels during the financial crisis.

Governments all over the world soon introduced record-high fiscal policy support measures. Most of

these support packages were designed to help viable companies survive the crisis, among other things with statesupported furlough schemes, deferral of tax payments and compensation for sick leave or the equivalent. In the USA, cheques were sent directly to households, with the aim of keeping incomes at relatively unchanged levels during the worst phase of the pandemic. There appears to be a form of consensus between governments that this crisis is of such a magnitude that it is permissible for public debt to increase considerably. Countries whose government finances were already weak before the pandemic erupted are not so resilient. The EU adoption of a package of support measures to which

all member states contribute, sharing the debt burden, is unprecedented and is likely to increase confidence in the union, but first of all help the most heavily indebted countries.

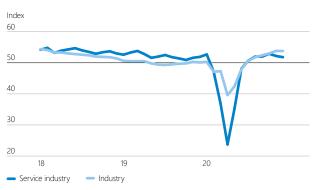
Recovery in some parts of the economy

The support measures, together with the gradual opening up of more and more countries at the beginning of the summer, led to the relatively rapid recovery of the financial markets, although the economic effects varied considerably between different sectors. In normal times, industry is relatively severely affected by a recession, but this case is different, since the crisis primarily affects the services

sector. One reason is that the ratio of payroll costs to turnover is relatively low in industry, but can amount to as much as 50 per cent for a services company. Another reason is that industrial production involves significantly less human contact than seen in the services sector. Several sectors were affected very severely, in particular the travel and hospitality industry, while others actually flourished. Stocks in many companies with some kind of relation to working from home, such as many IT companies, but also retail companies with a well-structured home delivery infrastructure, performed strongly during the year.

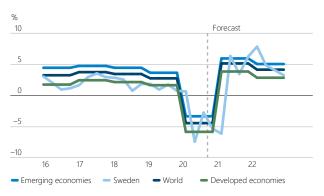
MARKET

GLOBAL PURCHASING MANAGERS' INDEX (GROWTH OVER 50)



Source: JP Morgan/IHS Markit

GDP GROWTH (%, ANNUAL RATE)



Sources: IMF and Sveriges Riksbank

Second wave and vaccines

During the summer, infection rates fell to relatively low levels in many places, but in the late autumn new, rapid spikes appeared, and the second wave affected numerous countries severely. Based on the lessons learned during the spring, the authorities had a far better understanding and preparedness to introduce more dynamic lockdowns more rapidly and effectively. Furthermore, the healthcare sector had learned how to handle COVID-19 patients better, so that death rates in the autumn were significantly below the levels seen in the spring.

As infection rates rose, in mid-November a couple of vaccine candidates with exceptionally high efficacy rates were presented. Many more vaccine candidates were also approaching the final phase. The challenge is to distribute these vaccines as soon as they are approved, even though pharmaceutical companies are also working closely with logistics companies to ensure secure and rapid distribution. After accelerated approval of the vaccines, the first vaccinations were given at the end of December in the UK, the USA and Europe.

Economic review

During the year, forecasters had the tough task of predicting the course of the economy. They were initially pessimistic, and in April, Swedish unemployment, for example, was predicted to rise to 15 per cent by year-end. It was also assessed that GDP growth in Sweden would drop by around 7 percentage points in 2020. At the time of writing, the Swedish labour market continues to face some tough challenges, but unemployment is close to 9 per cent and it is now assessed that GDP will contract by -3.5 per cent. The main reason for the significant forecasting deviations is that, to a great extent, the stimulus and support measures did actually have an effect. Sweden's government debt is expected to have increased from around 35 per cent of GDP in 2019 to around 40 per cent towards the end of 2021. This means that Sweden continues to have one of the lowest levels of indebtedness among the developed countries.

Vaccines are the key to determining how quickly conditions can return to normal. At the time of writing, there are hopes that broader vaccination levels can be achieved during the spring. Companies and households will not be able to start planning new recruitment or summer holidays, for example, on any great scale until vaccination programmes are running effectively. How quickly this can be achieved will play a great role in determining when the economy will return to the levels prevailing before the pandemic. It is assessed that this will be towards the end of the year, or the beginning of 2022. If vaccines are rolled out more quickly, the recovery will come earlier, and vice versa. With a new American president, who appears to advocate international cooperation, conditions are in place for the last four years' aggravated geopolitical development to be replaced by a new course based on cooperation and improved trade relations. While 2020 can be described as a year with focus on virus, lockdowns and recession, there is every indication that 2021 will concern vaccines, re-opening and economic recovery.

Macro tensions

As an element of the Fund's work on a strategic roadmap for 2021 to 2023, during the spring the Fund undertook a number of surveys in areas assessed to be important for its performance and about which the Fund required further information.

These areas were:

- Technology
- Macroeconomy
- Attractive employer
- Sustainability
- Mission
- Market structures and regulation.

The respective reconnaissance groups were tasked as follows: which developments might take place in these areas during the next five years, and which might significantly affect the conditions for the Fund's activities. The groups were also to consider what might therefore need to be changed in terms of how the Fund operates its activities.

The survey reconnaissance comprised staff members of the Fund, and the sources used included banks, brokers, academic research, think tanks and, in some cases, consultants. Due to COVID-19, there was little opportunity for in-person meetings.

Technology

The technology reconnaissance group included participants from across the Fund, including asset management, IT and business support. The work was divided into focus groups in order to make the most efficient use of the Fund's overall expertise and network of external experts, who were also invited to attend digital seminars and workshops. Based on the Fund's overall international network.

the reconnaissance group was able to discuss future technologies with visionaries in Silicon Valley and evaluate specific proposed solutions with a fund manager in New Zealand. Based on the reconnaissance work, the discussions also led the Fund to start up a pilot project to evaluate a future business support solution together with one of the Fund's banking partners.





Macroeconomy

Within such areas as macro, geopolitical conditions, assets and returns, some reconnaissance areas were particularly relevant.

A geopolitical conflict between the USA and China, with focus on strategic technologies is bubbling under the surface. This includes excluding Chinese Huawei from 5G networks in the USA and allied countries. It also concerns less well-known initiatives, such as preventing American technology from being used for military purposes in China, even via third parties and indirectly in supply chains, so that companies that use American technology are prohibited from selling to China. This raises issues related to how AP2 invests today and in the future in both countries, with sanctions as a potential outcome, even though this is not the main scenario.

Demographic effects on savings and inflation may play a role in the future course of

the Fund's expected returns. Since an ever-increasing proportion of the populations of developed economies and China will be pensioners, high global savings levels are expected to continue. This in turn means that, based on demographic factors, the Fund does not expect any upward inflationary pressure and consequential rising interest rates.

The effects following in the wake of COVID-19 will be extensive, comprising many elements of what is normally encountered in everyday life. It is possible to identify several areas that may affect how the Fund invests.

They include de-globalisation, with increased geopolitical tensions, to the benefit of local and regional, rather than global, investments, and also strategic changes in companies, curtailing productivity and thereby potential returns.



Attractive employer

The attractive employer reconnaissance survey revealed nine trends in society and professional lives that are deemed to be important to maintaining the status of attractive employer.

Clear mission – it is important for prospective new employees to know what the employer stands for, and that there is a will and ability to achieve this mission.

Good leadership – will be increasingly important in a rapidly changing world. This is a precondition for the other eight reconnaissance surveys. This concerns being a role model, showing consideration and taking a coaching approach.

Self-leadership, teams and employees – self-leadership has become more relevant with the rise of activity-based workstations and digital offices. One way of describing self-leadership is to understand what respective employees are to do, prioritise the sequence in which it is

done, and ensure that it can be done in favourable conditions.

Digitalisation – has allowed for greater flexibility in terms of where and how work takes place; at the workplace, at home or while out walking.

Learning culture, lifelong learning – in a changing world, with increased self-leadership and longer working lives, there is an even greater need for the development of new competences. For an employer, it is a competitive advantage to be able to demonstrate a clear culture that promotes learning.

Emotional intelligence; the ability to recognise and handle both one's own and others' emotions – current research shows a strong connection between high emotional intelligence and an organisation's progress, good leadership, well-being and performance.

Remote leadership – the flexibility to be able to work remotely will be in evergreater demand, and may possibly be expected as a matter of course. It is important that employers can provide the right tools, such as technical equipment, but first of all leadership development, to ensure that this can function smoothly.

Psychological security – the results of a survey to investigate why some teams were more successful than others showed that the most important factor by far was psychological security. This meant that employees dared to take risks and had the opportunity to express themselves within their teams, without being uncertain or ashamed of being branded as ignorant or difficult.

Sustainability – being an employer that advocates personal sustainability and encourages employees to take responsibility for their own well-being will benefit the organisation.

Sustainability

Four main reconnaissance surveys took place in the area of sustainability. The first survey concerned increased physical risks as a consequence of inadequate measures to prevent climate change. This entails, among other things, that further development is required of the work of understanding and handling the portfolio risks presented by the effects of climate change. It also means that it will continue to be important to make investments, such as in sustainable infrastructure, that can contribute to sustainable development.

The second reconnaissance survey concerned how capital flows to sustainable investments, as well as sustainable regulation, will continue to increase. Understanding these factors will be important for the navigation of the portfolio in coming years.

The topic of the third reconnaissance survey was the increasing focus on biological diversity. Loss of biological diversity is closely related to climate change and can entail considerable social and economic costs. It is important to improve knowledge of biological diversity and continue to refine how biological diversity is taken into account in asset management.

The fourth and last main reconnaissance survey concerned the increasing focus on social issues. The strong focus on human rights, for example, will continue. It will also be important to observe the interaction between different aspects of sustainability, such as human rights and climate change, by taking a holistic view of the integration of sustainability in asset management.



MACRO TENSIONS

Mission

The Swedish income pension system is stronger than ever before. Key reasons are a sustained period with strong exchanges, and high employment in recent years. Despite the dramatic development in the course of the coronavirus crisis, it is important to remember that, in the long term, the pension system's position is primarily determined by demographic factors.

Political changes affecting the AP Funds' activities are difficult to foresee, but one prediction is that a proposal for

"gassing up" or distribution will be reactivated now that the balance ratio is approaching 1.1, a level previously named in a government report. This would affect the pension system in terms of reduced fund capital and impaired consolidation. Another reconnaissance survey considered the risk that the beneficial effect of more people continuing to work at a higher age will not materialise, or fall short of expectations. There is also a risk that confidence in the pension system will be undermined if the expected length of

retirement begins to vary too much between different socioeconomic groups. This might require further political measures to be taken.

Finally, the group noted that even though the balance ratio is currently high, the net disbursements to the Swedish Pensions Agency will continue to increase, which will impose higher requirements on liquidity handling by the AP Funds. This requirement becomes particularly apparent in markets that are under stress, which was also the case in the spring.





Market structures and regulation

In summary, the most important reconnaissance surveys concerning market structures, trading venues and regulations were:

- Revision of MiFid II may affect the trading venues in which the Fund trades and how the Fund conducts its business.
- Changes in the regulation of the Chinese market will probably facilitate broader and more active management of Chinese assets.
- Handling of collateral (assets held as security) will be more and more important, from the perspective of operational risk and also from a cost perspective.
- DLT (Distributed Ledger Technology), (e.g. blockchain), may affect the Fund's activities in several areas.
- Regulatory measures may also affect data needs, data quality requirements and the need for data quality assurance. There will probably be an increase in data handling processes.
- More rapid development of digitalisation and remote working solutions, which will also require regulation. Digital agreements (ISDA 2020) and signatures will become more important.





MISSION AND GOAL

The Fund's mission, goal and vision

Andra AP-fonden is an independent government agency that autonomously manages funds within insurance for income-based old-age pensions. Together with the other buffer funds, Andra AP-fonden is part of the Swedish public pension system. The Fund's activities are ultimately regulated by law.

The mission as a buffer fund means that AP2 will, with its return, contribute in the long term to the balance of the pension system, thereby ensuring good pension development, even in times of economic and demographic fluctuations.

Mission and goal

Under the Act governing the AP Funds, the goal of the AP Funds is to manage their fund assets in a way that is of the greatest possible benefit for insurance for income-based retirement pensions. Returns should be high and the total risk level should be low, measured in outgoing pensions.

Part of the Funds' mission is to manage the fund assets in an exemplary manner through responsible investments and responsible ownership. On managing the funds, special emphasis must be given to how sustainable development can be promoted without compromising on the overall goal to be of the greatest possible benefit to the pension system.

Exemplary means that the investments should have the best risk and return given, the needs of the pension system, and that sustainability should be an integral aspect of the fund management.

In more concrete terms, the AP Funds' management mission entails that the effects of the automatic balancing on pensions must be limited, as it is only through this that the AP Funds' returns are linked to pension disbursements.

The mission requires equal treatment of all generations, in compliance with the principle of 'generational neutrality'. The strong performance of the national economy and the demographic trends makes less

stringent demands of a high return in the AP Funds, and vice versa. In total, the buffer funds account for approximately 16 per cent of the assets in the pension system. The other 84 per cent is the value of the contribution assets, which reflects the future value of the current pension payments.

New legislation

Under the revised Act concerning the AP Funds, which entered into force on 1 January 2019, new investment rules took effect, providing, among other things, greater opportunities to invest in illiquid assets. The AP Funds must also collaborate on the development of a shared set of values for the management of the fund assets, shared guidelines for reporting on how this objective has been achieved, and shared guidelines concerning assets in which the fund

MISSION, GOAL AND VISION

assets should not be invested. These shared guidelines can be viewed in their entirety at www.ap2.se

On 1 May 2020, step 2 also entered into force concerning changes in the AP Funds' investment rules. This entails that:

- · The AP Funds may co-invest in unlisted companies via unlisted private equity entities, but the AP Funds may not undertake the operative company management responsibility in these entities.
- The AP Funds may make sideinvestments in an unlisted company together with a fund in which they have invested, and which has also invested in the company.
- On the listing of a real-estate company or private equity entity, AP Funds may retain a holding of equities or other units exceeding 10 per cent of the votes for all equities or other units in the company.

· The AP Funds may invest indirectly, as investments in funds or private equity entities, in bonds and other receivables that have not been issued for general circulation, and may grant loans to real estate companies and unlisted private equity entities in which they hold equities or other units.

In 2020, a temporary change in the AP Funds' investment rules also entered into force. The change entails a temporary increase to 15 per cent in the previous limit whereby the AP Funds could hold a maximum of 10 per cent of the votes in a single listed company. The purpose of the change is to improve the AP Funds' opportunities to invest and achieve returns and to make better use of long-term management during periods of economic unrest as a consequence of COVID-19.

Objective linked to the pension system

The aim of AP2's investment activity, as laid down by the Fund's Board of Directors, is to minimise the conseguences of the automatic balancing for a 30-year horizon by conducting exemplary management of the capital.

Based on an analysis of the pension system, the Fund chooses a sustainable strategic portfolio that represents the asset structure which is assessed to have the best conditions to achieve the goal during the selected time frame. Long-term assumptions concerning returns and risks for the various assets. as well as how these returns relate to the development in the economy and demographic trends, are central to the analysis. The strategic portfolio that AP2 has established is expected to generate a long-term average annual real return of 4.5 per cent, including costs. The return may vary significantly over time. In particular, the return in the short or medium term can be expected to be lower, as a consequence of the continued low level of interest rates.

In the past ten years, AP2 has generated a return of 109.1 per cent, corresponding to an average annual return of 7.7 per cent. Adjusted for inflation, this corresponds to an

annual real return of 6.6 per cent. For 2020, the real return amounted to 3.0 per cent.

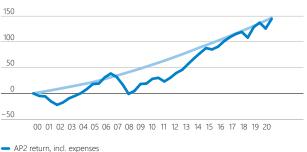
Vision

AP2's vision, World-class management, offers both inspiration and guidance for the Fund's employees. It helps the Fund to motivate and attract employees, and to prioritise and make the right decisions, and covers all parts of the Fund's activities.

Long-term strategic roadmap

The Fund implemented a strategic roadmap in 2018 that extended until 2020. The roadmap objective was by 2020 to achieve a sustainable new strategic target portfolio, and introduce an operations-based and value-creating digital platform and modern working methods. To achieve this plan, the Fund has linked in a number of strategies which are then broken down into several outcome targets that are continuously followed up by the Fund. During 2020, the Fund created a new strategic roadmap for 2021 to 2023.

ACCUMULATED REAL RETURN SINCE THE START, %



- AP2 anticipated return

STRATEGY AND MANAGEMENT

MISSION, GOAL AND VISION

A sustainable strategic portfolio

A sustainable strategic portfolio is a strategic portfolio that, by integrating sustainability into underlying decisions, is better equipped to fulfil the overall goal of providing the greatest possible benefit to the pension system in the long term. Integration of sustainability is necessary to achieve that goal. A sustainable strategic portfolio, without compromising the overall goal, also promotes sustainable deve-

lopment. More details of the Fund's investment strategy are given on page 26.

Digital platform and modern working methods

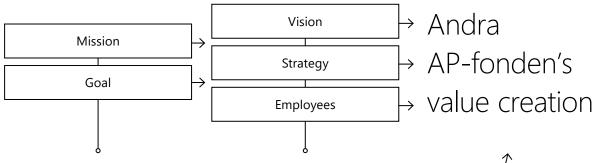
Within the framework of the strategic plan, the Fund has worked to introduce an operations-based, value-creating digital platform and modern working methods. For some years, AP2 has had a long-term IT strategy, which entails that IT has been a focus area under

Vision 2020. The ambition has been to develop and implement an IT strategy that is adapted to AP2's asset management strategy.

During 2019, the Fund adopted a new IT strategy of which the overall purpose and goal is to strengthen the Fund's IT infrastructure and expertise, and ensure that the Fund's activities continue to be secure and effective. This has been incorporated in a new digital platform on the basis of AP2's

WHAT THE FUND WILL ACHIEVE

HOW THE FUND WILL ACHIEVE IT



Ultimately, AP2 has an important mission from the Swedish Parliament – to maximise returns while at the same time keeping risk low. The investment strategy will make provision for the impact of pension disbursements, as well as the liquidity requirement associated with outflows from the AP Funds.

In order to fulfil its mission, AP2 has a financial goal that is linked to the pension system and the expected effect of the investments on pensions.

In order to deliver what is required for the mission and the financial goal that has been set, the Fund has a vision and a long-term strategy for creating value.

AP2's ability to recruit staff, retain them and contribute to their development is essential to achieving its long-term goal. This requires a strong culture and shared values.

Investment rules

By law, the AP Funds must adhere to the investment rules, which can be summarised as:

- Primarily acquire or hold assets that are liquid. Liquid assets refers to money market instruments or transferable securities that are, or will be within one year from the issue, intended to be traded on a trading venue or a corresponding marketplace outside the European Economic Area (EEA), etc.
- At least 20 per cent of the Fund's assets must be invested in receivables with low credit and liquidity risk.
- A maximum of 40 per cent of the assets may be exposed to currency risk.
- A maximum of 10 per cent of the Fund's assets may be exposed to an issuer or group of issuers of interrelated parties.
- Equities in listed Swedish companies may not exceed 2 per cent of the total market stock exchange value.
- The Fund may control at most 15 per cent of the votes in a single listed company.*
- At the time of investment, a maximum of 40 per cent of the real value of the assets held by the Fund may be placed in illiquid assets.
- Industry or economic policy considerations may not be applied to investment decisions.
- The Fund's assets must be managed in an exemplary manner through responsible investments and responsible ownership, without compromising the overall objective of high returns.
- * This is a temporary rule due to the economic unrest as a consequence of COVID-19. The rule is usually 'at most 10 per cent of the votes in a single listed company'.

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MISSION, GOAL AND VISION

needs and the requirements made on financial operators.

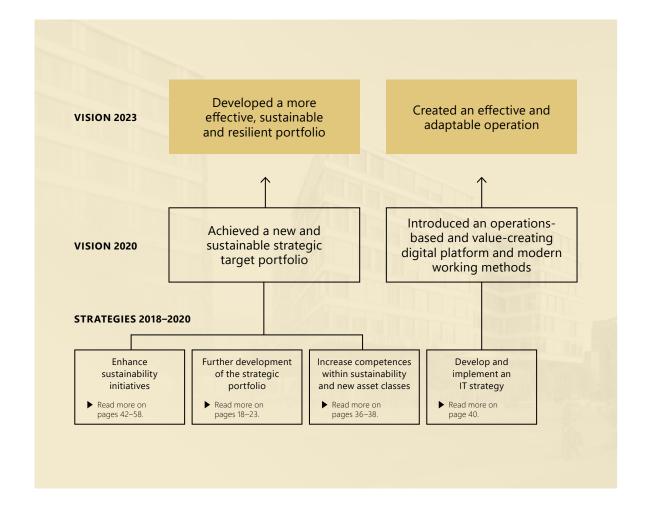
The new digital platform supports and encourages the Fund's employees to introduce new modern working methods more easily and faster, thereby streamlining the activities. Read more on page 40.

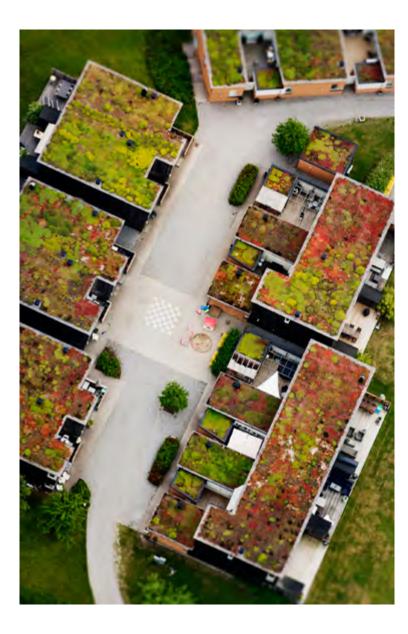
New vision

During the last three years AP2 has worked intensively in accordance with the above strategies, and the strategic portfolio has been developed in line with the vision. The Fund has also implemented modern working methods and a digital platform, which was a precondition for the Fund's opportunities to meet the need for employees to work from home during the pandemic.

In 2020, extensive strategic work took place in order to create new objectives. This work involved many of the Fund's employees and consisted of reconnaissance surveys of various different areas, such as technology, sustainability and leadership. Read more on pages 13–15.

The new objectives created by the Fund, which extend until 2023, are based on the previous long-term strategic plan. Up to 2023, the Fund must develop a more effective, sustainable and resilient portfolio. The Fund must also create effective and adaptable operations.





MISSION AND GOAL

Experts in the pension system

In order to achieve its mission to be of the greatest possible benefit to the pension system, Andra AP-fonden's investment decisions must be based on the system's future requirements. The Fund is therefore an expert in how the income pension system functions.

There are several stages between the terms of reference and the actual investment decision. In the first stage, AP2 specifies the terms of reference as the aim to minimise the consequences of the automatic balancing, the 'brake', over 30 years. It is only through the brake that there is a link between the return on the Fund capital and pension disbursements. 30 years is assessed to be an appropriate period to fulfil the requirement of generational neutrality.

Proprietary ALM model

The next stage is to find a method to assess which long-term portfolio best achieves the goal. Since risk and return are interrelated, they must be weighed against each other. The expected return on the portfolio must be high enough to contribute to growth in the system's assets at an adequate rate. At

the same time, the investment risk may not be so high that the probability of the brake being activated is too great, since a high expected return goes hand in hand with high risk.

For this purpose, the Fund has developed an ALM model, where ALM denotes Asset and Liability Management. The model simulates the development in the income pension system during the coming 30-year forecast period.

Based on the simulations, the longterm portfolio structure that is expected to entail the lowest future pension losses, due to the brake, is created.

Climate change is considered in the ALM analysis

The significance of climate change to the world's economic development is expected to continue to increase. Climate change affects the conditions for all forms of human activity, from farming and forestry, to industry and how cities function. Moreover, countries and industries differ in terms of how well they can cope with climate change.

Some countries are particularly exposed, due to their geographical location, while others have economies dominated by industries that either need to be phased out or severely restricted.

For AP2, which has a long-term investment strategy, it is vital to include a factor as important as climate change in investment decisions. This must take place all the way down from the highest strategic level to the individual investments at securities level. The risks which climate change entails for economic growth are therefore incorporated in the ALM analysis, which is the Fund's tool to achieve the right strategic port-

OVERVIEW MACRO MISSION AND GOAL STRATEGY AND MANAGEMENT SUSTAINABILITY

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EXPERTS IN THE PENSION SYSTEM

folio. The assessment is that the return will be affected negatively if countries do not succeed in achieving the goal under the Paris Agreement to limit the global temperature increase to well below 2°C.

Demographic factors play a major role

The income pension system is a distribution pension system. This means that the payments to the pension system (the contributions) from the gainfully employed fund the payments to current pensioners. If the contributions exceed the disbursements, the surplus is transferred to the buffer funds, for investment. In the same way, money is transferred from the buffer funds if disbursements exceed contributions. When the system was set up in 2001, contributions exceeded pension disbursements. Since 2009 the opposite has applied, however, since the large cohorts born in the 1940s began to take retirement. In total, up to and including 2020, AP2 has had a net outflow of around SEK 51 billion to the pension system, and the net outflow

from the buffer funds is expected to continue for many years to come.

Demographic factors, and their future development, thus play a vital role in determining the long-term portfolio. The Fund's simulations apply a pessimistic scenario, for the pension system, to the demographic development. This entails a lower birth rate, longer life expectancy, low net immigration and a future scenario in which pension contributions from a relatively smaller working population have to finance pension disbursements to a higher number of pensioners. This scenario justifies a long-term portfolio with relatively high expected returns and risks.

The pessimistic scenario is chosen because, in the first instance, a good return on the buffer capital is required, to reduce the risk of the brake being activated. If a more optimistic scenario materialises, and contributions from a relatively higher working population finance pension disbursements to fewer pensioners, the negative consequences of choosing a portfolio adapted to the pessimistic scenario are assessed to be small. On the other hand, the negative

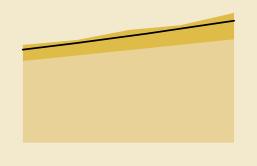
ALM model

The asset management goal is to reduce the risk of the brake being activated, resulting in lower pension disbursements. For as long as the assets in the pension system exceed the liability, the brake will not be activated.

DIRECTORS' REPORT

IDEAL SCENARIO

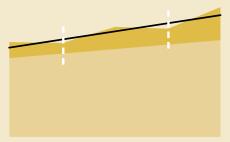
This is equivalent to the long-term portfolio that best fulfils the goal. The return on the portfolio is high enough for the assets to grow at a sufficient rate, with a risk level which ensures that the probability of the brake being activated is not excessive.



■ PENSION LIABILITY ■ BUFFER CAPITAL

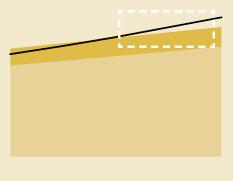
EXCESSIVE RISK

If there is an excessive risk, the Fund capital will be higher, but the high risk has meant that the Fund capital has varied so much that the brake has been activated in several cases, which results in lower pensions.



TOO LOW RISK

If the risk is too low, the Fund's return will be too low for the pension system's assets to remain higher than the liability. The brake is thus activated towards the end of the period.



CONTRIBUTION ASSETS

BALANCING

EXPERTS IN THE PENSION SYSTEM

consequences related to the opposite scenario can be considerable.

Besides demographic aspects, macroeconomic variables such as employment rates, economic growth and income development are key elements of the ALM analysis. This is how assessments of expected future returns and risks, and the mutual correlation between asset classes and economic aspects, are generally taken into consideration.

The Fund annually reviews the assumptions on which the ALM analysis is based. The assessment is based on the academic research in the area. In recent years, the risks which climate change entails for economic growth, for example, have been included. The ALM analysis is then updated before adopting a long-term strategic portfolio, a decision made by the Fund's Board of Directors in December each year.

Brighter future

Since the first version of the ALM model was launched in 2004, the picture of the pension system's future development has changed signifi-

cantly. Just a few years ago, the Fund's simulations showed that the brake could be expected to be applied regularly during the next 30 years. The latest simulations now show a muchimproved financial position up to 2049.

There are several reasons for this. Among other things, high actual returns for AP2 and the other buffer funds in recent years have contributed to a sound financial position for the system. Today, the asset value is around 8 per cent higher than the pension liability. The population increase as a consequence of recent years' immigration has also contributed, as will the higher retirement age. This is based on the Swedish Parliament's decision from October 2019 to raise the lowest income-based pension age from 61 to 62 years, as a first step. This change applies as from 2020. Parliament also decided to introduce a target age linked to average life expectancy, which in the long term will determine the lowest income-based pension age.

Towards the end of the Fund's 30-year horizon, the lowest pension age is expected to have increased to 66 years, which can be compared with today's average pension age of 64.5 years. All other things being equal, a deferred pension age means that more contributions are paid into the system, and that the financial situation improves. Last year, the Fund already began to include the effects of a higher pension age in its choice of long-term portfolio. The effects are difficult to assess, but potentially considerable.

The coronavirus crisis can be expected to have a negative impact on the income pension system in the immediate future. Concurrently with the recovery in the financial markets, unemployment in Sweden is still at a higher level than before. This affects the volume of contributions paid into the system. It can also be expected to affect the average income development and thereby the income index. The sound financial position of the pension system before the coronavirus crisis erupted did, however, entail that there was a significant buffer in the system. All other things being equal, this reduces the probability of the brake being activated. The actual impact on the



"In total, up to and including 2020, AP2 has had a net outflow of around SEK 51 billion to the pension system."

pension system will not be known, however, until the Swedish Pensions Agency has published the Pension System's Annual Report for 2020.

Ongoing analysis

Looking ahead, large cohorts of pensioners will continue to present a challenge, even though recent years' strong population increase and good returns for the buffer funds have given a more positive outlook. The Fund will continue to analyse the implications of the changed future scenario, in particular a higher

pension age, for the choice of long-term portfolio. A stronger position for the pension system entails that the Fund can choose a portfolio with lower expected returns and risks, and still contribute to favourable pension development for current and future pensioners. The significance of climate change to the ALM analysis will continue to be a key issue. AP2's method of integrating the consequences of climate risk in the ALM analysis must be developed over time, not least as new research in this area emerges, and new knowledge is gained.

Strategy & asset management

OVERVIEW

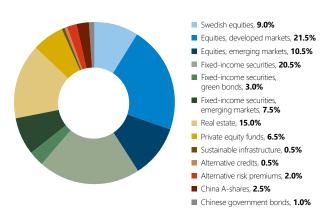
MACRO

MISSION AND GOAL

A sustainable investment strategy

The Fund's pension system expertise is the basis for asset management that is dedicated to sustainability. During the year, Andra AP-fonden internally developed and implemented multi-factor indices for global equities and corporate bonds that are in accordance with the criteria for the EU Paris-Aligned Benchmark.

ANDRA AP-FONDEN'S STRATEGIC PORTFOLIO 2020 (% OF THE FUND CAPITAL)



The statutory goal of the AP Funds is to be of the greatest possible benefit to the income pension system and to manage the fund assets in an exemplary manner through responsible investments and responsible actions. Special emphasis must be given to how sustainable development can be promoted without compromising the overall goal of providing the greatest possible benefit to the pension system.

AP2's Board of Directors has operationalised the goal as: The aim of the Fund's investment activity is to minimise the consequences of the automatic balancing for a 30-year horizon by conducting exemplary management of the capital.

The Fund's strategy to achieve this objective can be summarised as follows: On the basis of the Fund's assessment of the needs of the pension

system, to invest the Fund capital in an effective portfolio that integrates sustainability and promotes sustainable development.

AP2's view of the most important success factors for the investment strategy is summarised in the Fund's investment convictions.

Assessment of the needs of the pension system

The basis for AP2's investment strategy is a thorough analysis of the pension system and its needs in the coming 30 years. Supported by the proprietary ALM model, AP2 can identify the long-term strategic portfolio, and which expected return and risk are of the greatest benefit, i.e. which minimise any future pension shortfall due to the activation of the automatic balancing mechanism (see pages 21–23).

INVESTMENT BELIEFS

- 1. Thorough analysis of the pension system is key to choice of strategy.
- 2. Systematic risk-taking is required.
- 3. Diversification reduces risk.
- 4. Active asset management creates added value.
- 5. Sustainability pays off.
- 6. Climate change is a systemic risk.
- 7. Long-term mandate presents special opportunities.
- 8. People and culture are critical success factors.
- Stable processes are essential for good results.
- 10. High level of cost-effectiveness leads to improved results.

Systematic and active risk-taking, diversification and low costs give an effective portfolio

The high expected return required to fulfil the Fund's mission is achieved, in the first instance, by exposing the Fund capital to various systematic financial risks, called systematic risk premiums. To begin with, this is achieved through allocations to broad asset classes such as equities, government bonds and corporate bonds, and to less liquid asset classes such as private equity, real estate and infrastructure.

This is also achieved by carefully selecting which index represents the respective asset classes. The Fund has long chosen not to manage all asset classes on the basis of traditional market-value-weighted indices. Instead, the Fund has chosen indices that give better exposure to various systematic risk premiums. This entails, among other things, that equities in small companies and in low-value companies have greater weight in the Fund's index than in traditional indices.

The strategic portfolio selected is expected to give an average real return of 4.0 per cent per year during the coming 30-year period. In the shorter term, with the current low interest rate levels, a lower return may be expected, however.

The long-term mission is the basis for sustainable risk-taking. For risk-taking

to be effective, which means that the risk may not be higher than necessary, the Fund has great focus on diversification. A well-diversified portfolio, with many different asset classes, in both developed and emerging countries, enables the Fund to spread its risk. Exposure to foreign currencies is also selected to ensure that the total risk in the portfolio is as low as possible.

Besides the return, which is the result of long-term exposure to systematic risk premiums via the Fund's choice of asset classes and the indices which represent the asset classes, further added value is created through active asset management. Active asset management denotes investment decisions that deviate from the benchmark indices. Through active asset management, the Fund's objective is to add 0.5 percentage points to the annual return.

There is great focus on cost-effective asset management. This means that the return after costs must be as high as possible in relation to the risk taken. AP2 therefore manages most asset classes internally, which is assessed to be most cost effective. Resources are concentrated on areas which the Fund considers to have the greatest chance of success, based on the market, experience, competences and processes. Of the Fund's assets, 84 per cent are managed in-house.

The Fund uses external managers for asset classes and mandates for which the Fund does not have the internal resources required or for which the external managers add value to the Fund's own asset management. The majority of AP2's external asset management is active.

The procurement of external fund managers is based on such criteria as investment style, quality and analytical approach, organisational structure and staffing, sustainability, costs and historical performance.

Promotion of sustainable development and integration of sustainability in all investment processes

Sustainability is important for the Fund's return and therefore plays a key role in the strategy and for investment decisions at all levels. In AP2's investment beliefs, sustainability also plays a dominant role, in the form of two of the overall convictions. They state that it is worthwhile to consider sustainability in asset management, and that climate change holds a special position within the sustainability framework, and constitutes systematic risk.

AP2 applies the principle that sustainability must be integrated in all investment processes, in everything from ALM analysis and selection of strategic portfolio, to active asset management decisions at securities level.

IN-HOUSE ASSET MANAGEMENT

The following asset classes are managed in-house:

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- Swedish equities
- Equities, developed markets
- Equities, emerging markets
- · Fixed income, emerging markets
- · Swedish fixed income
- Foreign government and credit bonds in developed markets
- · Global green bonds
- Tactical asset allocation
- Real estate (via directly-owned companies)
- Elements of the portfolio with alternative risk premiums
- · Chinese government bonds.

EXTERNAL ASSET MANAGEMENT

During 2020, AP2 applied external management within the following areas:

- · Equities, developed markets
- Equities, emerging markets
- Alternative investments (private equity funds, traditional real estate, timberland and farmland, sustainable infrastructure, Chinese A-shares, alternative credits and elements of the portfolio with alternative risk premiums).

INVESTMENT STRATEGY

Since climate change has a significant long-term impact on economic growth and the financial markets, the ALM analysis was further developed in 2019, so that climate risks are now considered in the forward-looking assumptions underpinning the choice of strategic portfolio. Some of the overall asset classes included in the strategic portfolio are also directly linked to the ambition of contributing to sustainable development.

AP2's strategic portfolio includes asset classes with a pronounced sustainability focus. The Fund has a long-standing strategic allocation to green bonds, which today account for 3.0 per cent, which is equivalent to just over SEK 11 billion. In 2019, the Board of Directors decided that the Fund would make a strategic allocation of 2.0 per cent to sustainable infrastructure, i.e. infrastructure assets that contribute to sustainable development in line with the Paris Agreement. The first investments in sustainable infrastructure took place in 2020. Read more on page 67.

Sustainability is also integrated in the strategic portfolio via the choice of the indices representing respective asset classes. During the past year, the Fund has had great focus on developing and implementing multi-factor indices for global equities and corporate bonds, in accordance with the criteria for the EU Paris-Aligned Benchmark. This

includes that the Fund does not invest in companies which receive more than 1 per cent of their revenue from coal, more than 10 per cent from oil and more than 50 per cent from gas. This also entailed a reduction of the portfolio's carbon footprint by around 70 per cent for both global equities and corporate bonds, compared with previous years, taking account of Scope 3 emissions in accordance with the criteria for PAB. Read more on page 30.

The Fund's management of bonds issued in emerging economies is also based on indices with sustainability characteristics.

For alternative, unlisted, asset classes, indices are not the starting point for the portfolio composition. Instead, strategies are designed that are intended to achieve designated targets for the allocations, including the requirement of sustainable investments and the sustainability of the external asset managers who are engaged.

Within active asset management, sustainability is also an integrated element of the investment process. For example, sustainability factors have long been part of the model-based active management of global equities.

At the overall level, the Fund also has processes in place to handle individual companies or other players from a sustainability perspective. Among other

things, there are processes to identify and conduct dialogue with companies for which human rights-related risks are assessed to be high, to divest from companies with tobacco- and nuclear weapon-related activities, and to determine which countries it is appropriate to include in the portfolio, and for how countries with high sustainability-related risks must be handled.

Ongoing assessment

The investment strategy is subject to ongoing assessment, to ensure that the asset management operations add value. The strategic portfolio's actual return and risk are compared with a far simpler basic portfolio created from the same ALM analysis. With considerably fewer asset classes to choose between, the basic portfolio comprises

65 per cent global equities and 35 per cent Swedish bonds. In 2020, the assessment, which is performed in October each year, showed that in the last 12 years the strategic portfolio has achieved an added return of 0.12 percentage points per annum, while the risk has been lower, which in total corresponds to 3.24 per cent during the period.

BENCHMARK INDEX FOR THE LISTED STRATEGIC PORTFOLIO, 31 DECEMBER 2020

		Index
Equities	Sweden	SEW: 'Equal Weighted Sweden Index'
		CSRX: 'Carnegie Small Cap Return Index'
	Developed markets	MSCI World ¹ , MSCI World Multifactor ¹
	Emerging markets	MSCI Emerging Markets Multifactor ¹
Fixed-income securities	Swedish nominal fixed income	SHB Swedish All Bond ¹
	Foreign government bonds	Bloomberg Barclays Global Government Index ¹
	Foreign credit bonds	Bloomberg Barclays Global Credit Index ¹
	Global green bonds	Bloomberg Barclays MSCI Custom Green Bond Index ¹
	Government bonds in emerging markets	JP Morgan ESG EMBIGD ^{1, 2} JP Morgan GBI-EM Global Div ^{1, 2}

¹ Adjusted index.

² Information has been obtained from sources believed to be reliable, but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 201[7], J.P. Morgan Chase & Co. All rights reserved.

OVERVIEW

Flexibility is important during the pandemic

When the financial markets crashed in March, after the severity of the COVID-19 pandemic became apparent, asset managers were put to the test. Andra AP-fonden's Chief Investment Officer believes that the Fund successfully tackled this challenge.



When Italy went into lockdown at the end of February, to reduce the spread of COVID-19, the financial markets began to tremble. This is clearly illustrated by the broad American index, S&P 500, which set a new record on 19 February 2020. Just over one month later, on 23 March, it was 34 per cent lower, after one of the fastest and most rapid downturns ever seen.

"It has been a different type of crisis, since it was a shock that completely came from outside. Economic downturns usually stem from inside the economy itself, such as excessive inflation, with the central banks raising interest rates, or defiant action by a part of the private sector. When this crisis erupted, there were no such signs," says Hans Fahlin, Chief Investment Officer at AP2.

Asset management at AP2 is based on a strategic portfolio distribution adopted by the Board of Directors. This is the Fund's best assessment of how a portfolio that best fulfils this mission – being of the greatest possible benefit to the pension system – will appear in 30 years' time.

As time passes and asset prices change, the distribution of assets in the portfolio will change.

"It has been a different type of crisis, since it was a shock that completely came from outside."

HANS FAHLIN

CHIEF INVESTMENT OFFICER AT AP2

For example, the equity portfolio can appreciate more than the bond portfolio, so that the ratio of equities is higher than in the strategic portfolio. The Fund will then rebalance by selling equities and buying bonds for which the ratio is too low. Yet the Fund does not rebalance on a daily basis, but applies intervals.

"As long as we lie within the interval, then so be it. Rebalancing too often would drive up transaction costs," says Hans Fahlin.

When markets trembled in March the interval was broken. This was the first time the Fund took action in the markets to rebalance the portfolio. There was poor liquidity, however, within certain asset classes, in particular for corporate bonds, but also government bonds.

"We then took the decision to defer a second rebalancing. We assessed that it was not worth the price in transaction costs to return to the normal portfolio," says Hand Fahlin.

Besides the strategic level, the Fund works with shorter tactical allocations of up to one year, and semi-strategically with horizons of several years. When the equity markets plum-

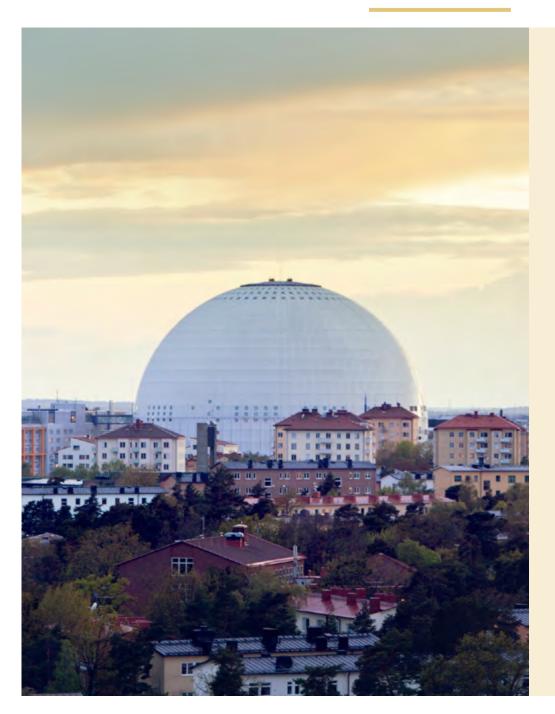
meted, credit spreads widened, and the krona weakened, the Fund began to consider which positions it should take.

"In this process we considered how we were not able to foresee the downturn, and now it had gained momentum. How much worse would it get before it became better? When is a good time to take a position for a reversal?" says Hans Fahlin.

The result of the daily deliberations was that, at the beginning of May, the Fund took a relatively large position for a strengthening of the krona against the US dollar. Later in May, the Fund also took the position of a recovery in the equity markets.

"We had good timing for the krona and rather poorer for equities. But overall, our organisation and methodology worked very well during the crisis. Being able to take a flexible approach to when we should rebalance has proved successful," says Hans Fahlin.

OVERVIEW MACRO MISSION AND GOAL STRATEGY AND MANAGEMENT SUSTAINABILITY DIRECTORS' REPORT ACCOUNTS AND NOTES FUND GOVERNANCE



Integration of sustainability in the asset management process

Swedish equities

WHAT WE DO

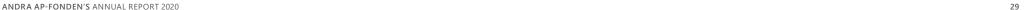
The Fund's management of Swedish equities is based on three mandates: one for large companies that has an investment universe of around 60 companies, one for small companies that has around 270 companies, and one mandate that invests in cleantech companies.

The asset management team are stockpickers and base their selection on a separate fundamental analysis. This fundamental analysis entails a close analysis of a company's accounts, business model, markets and future outlook. When companies are analysed, consideration is also given to sustainability aspects and how they can affect the company's valuation and revenue in the long term. When the Fund believes that an equity deviates from the market, this is expressed by overweighting or underweighting the equity in relation to the benchmark index.

In recent years, the portfolio's active element, which is the deviation compared to the benchmark index, has increased. For example, the portfolio of small companies has returned an excess positive return of 183.6 percentage points in the last ten years.

FOCUS 2020

- Establishment of a portfolio of Swedish cleantech companies.
- Close dialogue with portfolio companies on how they are affected by the coronavirus pandemic in the short and long term.
- Commenced analysis of how the EU's taxonomy and the criteria for the EU Paris-Aligned Benchmark may affect the investment universe.



In 2020, Andra AP-fonden adjusted its internal indices and portfolios for global equities and corporate bonds in order to fulfil the Paris Agreement's target of 1.5°C. This was a major adjustment task that was performed without compromising return and risk characteristics.



The adjustment adheres to the climate regulations adopted by the EU within the framework of the action plan for the financing of sustainable growth. The regulations, which are intended for public index providers that wish their indices to be known as climate indexes, specify two levels of climate adjustment: the EU Climate Transition Benchmark, which is rather less ambitious, and the EU Paris-Aligned Benchmark (PAB). Since AP2 has the ambition of a portfolio in line with the Paris Agreement, it opted for the more demanding regulation: the EU Paris-Aligned Benchmark.

AP2's indices are solely applied internally by the Fund, and is therefore not actually affected by the regulations. Using external regulations compiled on a scientific basis, according to the conclusions of the UN Climate Panel, by a credible player such as the EU, does present advantages, however.

"These are transparent regulations, so as to reduce the risk of 'greenwashing', while stake-

holders can also analyse and influence this going forward. For us who would like to have a portfolio in line with the Paris Agreement, these regulations have come at the right time," says Tomas Morsing, head of R&D at AP2.

The criteria are based on the conclusions of the UN Climate Panel and are intended to support the broad social change required to achieve the climate goals under the Paris Agreement. This entails the divestment of certain companies, primarily with activities within fossil fuels, while also requiring continued exposure to sectors that are important to achieving the climate transition.

"It would have been easy to reduce a carbon footprint index by solely investing in sectors with small emissions, such as IT. But in such case, there is no financing contribution to sectors and companies that are important for the transition, such as producers of wind farms or renewable materials," says Tomas Morsing.

Brief facts

AP2 has created internal PAB-adapted reference indices for equities in developed markets and emerging markets, and for global corporate bonds. The indices serve as a reference for internal management mandates, which are thereby also adapted to PAB. These mandates concern almost half of the

A PAB index must have a 50-per cent lower carbon footprint than a market-weighted index, and thereafter annual reductions of 7 per cent, to achieve net zero emissions by 2050. This presents an incentive for companies to continuously reduce their emissions, in order to stay in the index.

"There is also a stick. If you leave an index, this usually means a lower share price and more expensive financing in the credit markets," says Tomas Morsing.

The PAB indexes are an extension and amplification of the Fund's previous sustainability-adjusted multi-factor index and has the same good return and risk profile. The task of creating them was mainly a challenge on the credit side, since liquidity restricts the practical usefulness of an index.

"The team has done an excellent job and created one of the first indexes of this type in the world. This required a lot of work, with a very fine result," says Tomas Morsing.

OVERVIEW MACRO

Quantitative management

WHAT WE DO

Quantitative management entails using statistical analysis to identify characteristics in companies, called factors, that either individually, or together with others, can indicate future returns. This is part of the Fund's active asset management and takes place in the areas of foreign equities, global credits, Swedish fixed-income securities and government bonds in emerging markets. Within all asset classes, the Fund applies sustainability factors to active management, which creates good returns for pensioners and promotes sustainable development.

AP2 has worked actively for many years to integrate sustainability factors in its equity management. In 2018, new internally created multi-factor indices with sustainability characteristics were implemented for foreign share-holdings, and these were further developed in 2019. The sustainability factors to which the indices have had the greatest exposure are linked to a number of environmental, social and corporate governance factors. This entails that equities in companies that have a good ESG profile have received a higher index weight.



In its management of emerging market bonds, for a couple of years the Fund has used JP Morgan's ESG index as the benchmark index. The ESG weighting exerts a clear positive effect on the sustainability profile in the index, without impairment of the risk-adjusted return profile.

FOCUS 2020

- Internally developed multi-factor indices for global equities and corporate bonds, in line with the EU Paris-Aligned Benchmark.
 Read more on page 30.
- Improvements to the models for active management of government bonds in emerging market countries, including additional ESG factors.

Alternative investments

WHAT WE DO

Within the alternative investments asset class, AP2 has gathered investments in unlisted real estate (including timberland and farmland real estate), private equity funds, sustainable infrastructure, external global equity mandates, alternative risk premiums, alternative credits, investments in Chinese government bonds and equity investments in the local Chinese stock market. Most of the asset classes are defined as illiquid assets.

The day-to-day work concerns assessment of the asset managers' processes and follow-up on their reporting. This takes place in different ways, depending on the asset class involved. For the assets managed by the Alternative Investments Department, the sustainability work is an important element of the due diligence process for new asset managers, and for the ongoing development. For this department, sustainability work also concerns being involved in and developing the sector, and thereby helping managers to better handle sustainability issues. During the year, the department, together with managers of timberland and farmland real estate,



worked on biological diversity issues, which among other things led to planting flowers around agricultural land, to improve biological diversity.

FOCUS 2020

- The new change in the investment rules for the buffer funds that entered into force in 2020 increased the Fund's opportunities to invest in illiquid assets.
- The first investments in sustainable infrastructure took place.
- Greater focus on sustainability work in Chinese companies.
- Development of a process for evaluation of risk asset managers.
- Meeting with the Fund's managers of timberland real estate concerning how the forests retain carbon dioxide, and how this can be reported.

As an institutional manager that puts sustainability high on the agenda, Andra AP-fonden is a driving force for increased transparency and active sustainability work in the private equity sector. Through continuous dialogue with managers and work in collaborating organisations, the Fund has contributed to some major steps being taken by the sector.

AP2's private equity portfolio comprises 46 managers and 146 active funds with more than 2 300 companies. Concerning sustainability, comparative key figures at fund level are complicated by how companies are bought and sold during the fund's lifetime, and are also active in various different sectors. On the cost side, the challenge is primarily the non-standardised reporting of management fees and profit sharing among complex agreement structures.

Within cost reporting, since 2019 AP2 has supported the global ADS (Adopting Data Standards) initiative, which aims to create a standard with a digital cost reporting solution. This is a further development of the standard template created by ILPA (Institutional Limited Partners Association), which is a trade organisation for private equity investors. However, the template has not been fully adopted as the standard by the entire industry, so efforts are still being made to achieve standardised, digital and transparent reporting for managers.

"We cannot drive this issue alone or devote too many resources to controlling costs. This is why we are working with other investors to include this reporting in a cost-effective way," says Marianne Stenberg, corporate governance analyst at AP2 and board member of the ADS Initiative.

Within a few years, the aim is for the ADS Initiative to create a platform for digital cost reporting, with access for both managers and investors, irrespective of their respective system support. Until then, the Fund is working for increased internal automation, active involvement in stakeholder organisations such as ILPA, and active dialogue with managers.

AP2 is also driving sustainability development, to achieve greater transparency. One of AP2's ten investment beliefs is that sustainability pays off, which is one more reason for the Fund to only invest with managers that have a clear sustainability focus.

"Within sustainability, analysis and follow-up should be based on the specific conditions and

sector affiliation of each company, in order to be relevant. On the financial side, income statements and balance sheets look the same and are used in the same way in all sectors, which makes them easier to standardise," says Anders Strömblad, head of Alternative Investments at AP2, who has served two terms on the board of ILPA and also chaired the UN-PRI Private Equity Advisory Committee.

"We require managers to have a philosophy, process and reporting system for sustainability, and we assess managers' degree of implementation on the basis of identified criteria. We value continuous active dialogue, and particularly in cases where the manager has not progressed so far in its sustainability work. It is not uncommon for managers and companies to be very active in the sustainability area, without directly classifying this as such. This is an element of continuous business development," says Camilla Axvi, who is responsible for private equity investments at AP2.

Result

Since 2010, AP2's private equity investments have achieved a return of 13.8 per cent per annum.

This is better than an equivalent return for a listed market. Of the Fund's assets under management, 6.6 per cent is invested in private equity funds.

A key tool for AP2 is to disseminate and receive new knowledge. This takes place through involvement in such organisations as ILPA, as well as UN-PRI and others, and at regular meetings within the sector to discuss current issues. Knowledge is the basis for more nuanced and better discussion, which ultimately can drive value and ensure more positive development.

"Managers need to have knowledge of value drivers in the companies, and be able to explain this. We can therefore identify the challenge of creating a standard template for sustainability reporting, in view of the need for customisation based on sector and company. It is vital that we, as investors, require relevant qualitative and quantitative information," says Anders Strömblad.

OVERVIEW MACRO

MISSION AND GOAL

STRATEGY AND MANAGEMENT

SUSTAINABILITY

PORTFOLIO MANAGEMENT

Mefix

WHAT WE DO

Mefix is an acronym for the activities in which the department is involved (macro, exposure, fixed income and foreign exchange). An important aspect is to ensure that the Fund has the required exposure to the various financial markets in which the Fund invests, and that this is adjusted as required, so that the actual exposures reflect the strategic portfolio adopted by the Board. Mefix is primarily responsible for the Fund's trading in various markets. Based on orders from the portfolio managers in other departments, Mefix undertakes transactions in equities, derivatives, currencies and fixed-income securities with the Fund's counterparties.

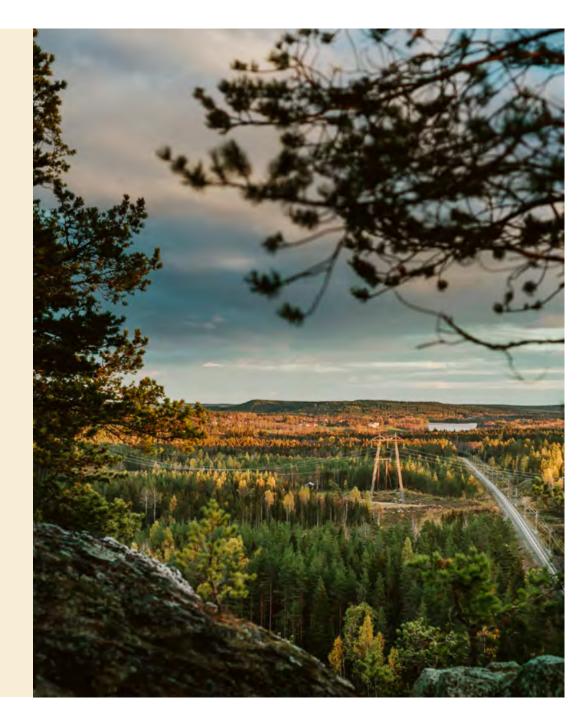
The department's responsibility for currency exposure also entails responsibility for making the necessary currency conversions and ensuring that investments in other currencies are hedged according to the current strategy. Mefix is also responsible for the Fund's cash management. Mefix furthermore has three bond management mandates: one for Swedish



bonds, one for global government bonds, and one with focus on green bonds. Sustainability is an important theme for bond management, and besides investments in green bonds, the Fund invests actively in bonds under other sustainability themes, such as social bonds.

FOCUS 2020

- In a year affected by volatile financial markets as a consequence of the COVID-19 pandemic, there was strong focus on ensuring, as cost-effectively as possible, that the Fund's portfolio reflects the strategic portfolio.
- Continued digitalisation of business flows, to reduce transaction costs and operational risks.
- Increased element of sustainability-oriented bonds in the Fund's portfolios.



OVERVIEW MACRO MISSION AND GOAL STRATEGY AND MANAGEMENT SUSTAINABILITY DIRECTORS' REPORT ACCOUNTS AND NOTES FUND GOVERNANCE

Integration of sustainability is a journey

Andra AP-fonden has worked with sustainability issues since its establishment in 2001. This work has intensified in recent years, and involves all of the Fund's employees in various ways.

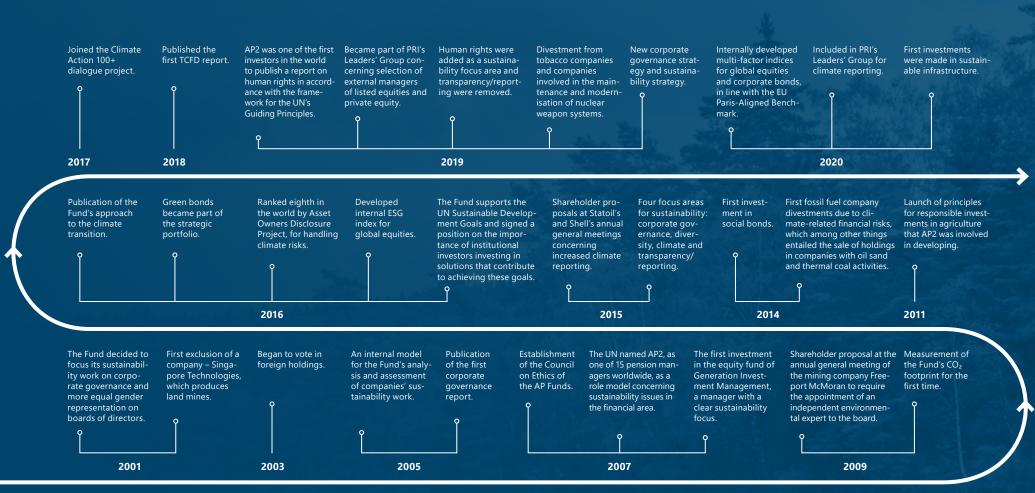
Excerpt from AP2's first Annual Report in 2001

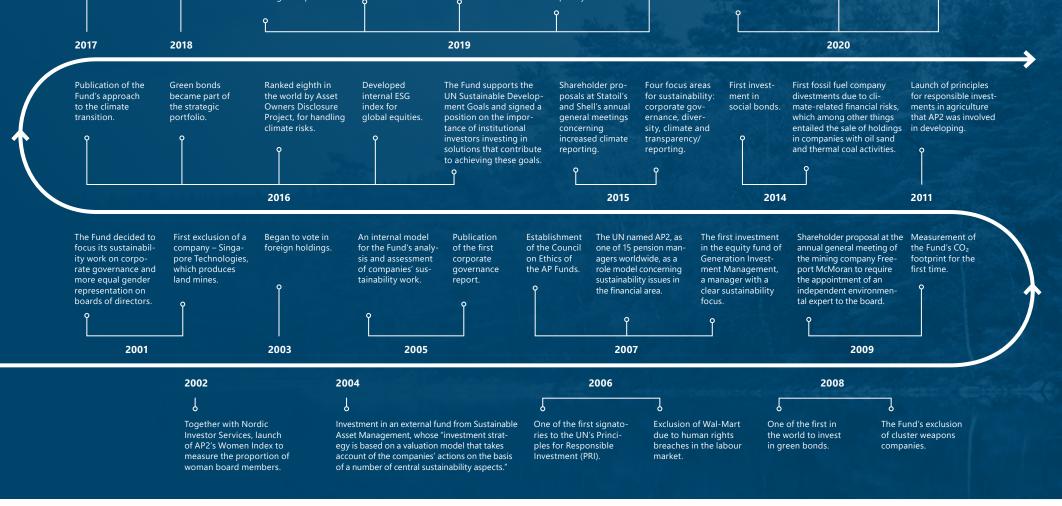
"The issue of the ownership role and responsibilities of institutional investors has attracted increasing attention. As institutional investors have increased their corporate stakes in leading stock exchanges, this is perfectly natural. The Second AP Fund feels it is entirely reasonable that the demands made on institutions as active owners should increase in a world of increasingly unrestricted flows of capital, characterised by growth in cross-border trade, new currency zones and a more multicultural society, where traditional national borders have acquired a new meaning. To these must be added environmental and ethical issues, as well as the need

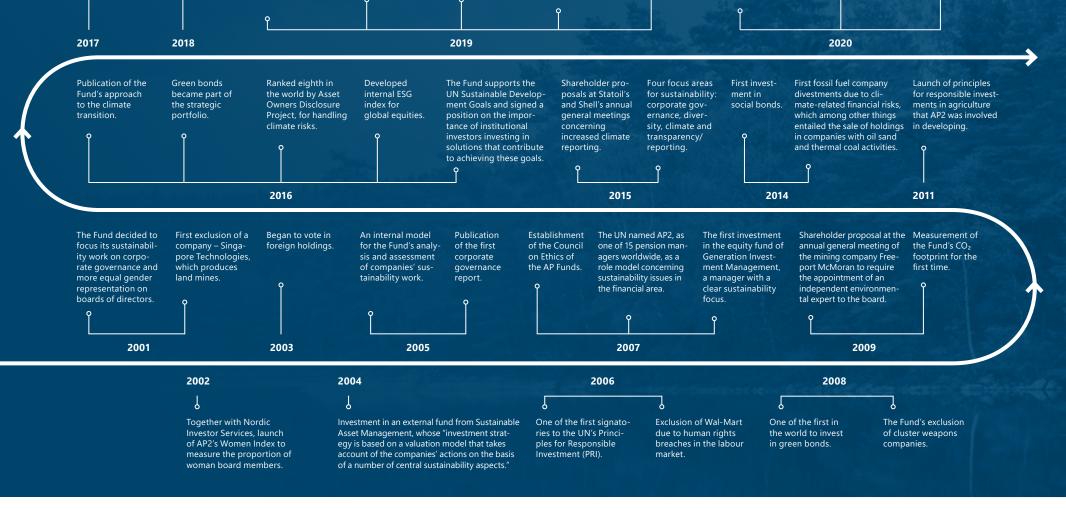
to develop a society based on sustainable goals. The Second AP Fund has confronted and attempted to address these issues in its corporate governance policy In concrete terms, in the day-today work of the Fund, it is often simply a matter of adopting a principled but pragmatic approach, given the complexity of the issues and the guiding principles on which the activities of the Fund are founded. This corporate governance policy will gradually evolve and become more specific as the Second AP Fund becomes more established."

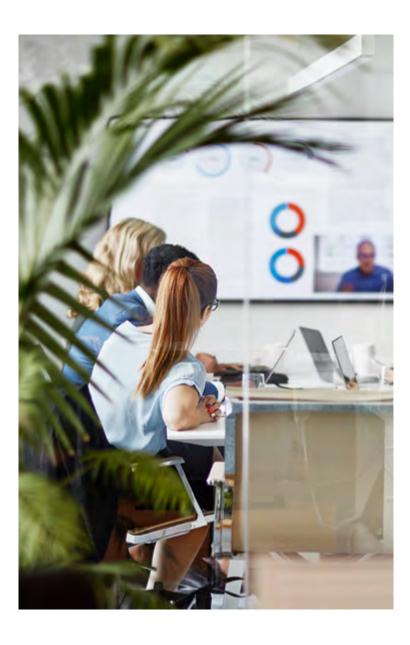
Lars Idermark, former CEO of AP2











Employees with good expertise and strong commitment

Andra AP-fonden's ability to recruit staff, retain them and contribute to their professional development is essential to achieving its long-term objectives. Part of the Fund's long-term strategy is to use its own in-house resources to steadily build up ever more organisational efficiency and cost-effective asset management.

AP2 is an archetypal knowledgedriven organisation, where the specialist competences, creativity and commitment of its staff are critical to achieving successful results. As a manager of buffer capital, the Fund is tasked with an important mission. This makes high demands of the Fund's good judgement in its day-to-day operations, and the need for transparency in carrying out its duties. These issues are often the subject of internal discussion within AP2. The Fund subscribes to a common code of values and has clearly established internal policies to govern the professional conduct of all employees.

Culture and values

2020 was a special year that presented both challenges and opportunities. It was a year in which previous years' extensive development of the Fund's culture and values served as a sound foundation when the global pandemic erupted.

The Fund's culture is characterised by personal responsibility and individuality, within the broader framework of a strong team spirit. The Fund's values: long-term value creation, responsible, respect and continuous improvement influenced how the Fund handled the impact of COVID-19 on its activities.

The Fund's crisis management and leaders were clear, transparent and responsive to the needs of employees

and operations. In this way, the Fund has continued to develop its strong culture and worked in pursuit of its values during the past year.

COVID-19

Since March, AP2 has operated as two teams. This division was made in order to prevent new infection, and also to ensure that the Fund could continue to operate safely and efficiently. One team started by working from the office for two weeks, while the other team worked from home. After two weeks, the teams switched over. After the summer, this was adjusted to every other week, and since November, everyone has had the option to work from home.

EMPLOYEES

"As a consequence of the coronavirus pandemic, the Fund has rapidly achieved greater digitalisation."

Working environment and health

AP2 must endeavour to ensure a working environment in which every employee thrives and can develop in their work. This must also be an environment that minimises health risks. This was a challenging year from a working environment perspective, since many staff members worked from home. AP2 conducts systematic working environment measures by investigating, addressing and following up on the physical and psychosocial working environment, which in 2020 also included the home working environment.

The Fund made an inventory of home workstations and all staff had the opportunity to take home equipment from the workplace as required. To counter physical and mental illness, the Fund's managers were in close contact with their staff and teams. This year it was even more important than ever before to prevent excessively sedentary habits among employees. The Fund's trained health coaches therefore organised various activities for employees, in order to encourage physical exercise.

Each employee's health is also monitored in conjunction with the annual

employee appraisal. AP2 encourages a healthy and sustainable lifestyle and works actively to create a high level of well-being. Exercise and good health are a crucial aspect of the Fund's corporate culture, and all employees are therefore offered a fitness activity subsidy and regular medical check-ups.

The Fund's working methods based on greater variation and flexibility continued to be developed in 2020. As a consequence of the coronavirus pandemic, the Fund has rapidly achieved greater digitalisation. During the autumn, the Fund held a workshop on the theme of remote working and how this affects activities and employees from different perspectives. The Fund will apply the results to its ongoing development of new working methods.

AP2 works actively on such issues as gender equality, diversity, the working environment and discrimination. The work is based on the Fund's equality and diversity plan, working environment policy and anti-discrimination policy. On their appointment, all employees are informed of the Fund's policies and guidelines.

Leadership training

A clear leadership that complies with AP2's values and management practices is an important competitive tool. Being a manager at AP2 entails living up to the requirements and expectations of both management and employees. The manager's tasks include setting an example and showing personal consideration, and creating the right conditions for inspiration and motivation, which helps to develop both the management and its employees. AP2's continuous improvement approach also applies to management development. During 2020, the Fund's managers held regular virtual meetings in order to support each other and exchange experience concerning the challenges presented by remote management.

Skills development

All employees are offered ongoing skills development training within their individual fields of work. All employees receive continuous training in sustainability issues. During the year, all employees took training in email handling and security, the



Swedish Anti-Money Laundering Act and human rights. Within the Fund's business plan initiative, a number of reconnaissance groups comprising a cross section of employees were formed. The aim was to survey current trends in the world at large, of which the Fund should be aware going forward. The Fund's reconnaissance groups generated a high level of participation and competence development within various areas. Read more on page 14.

Exchanging expertise

Besides extensive pooling of internal expertise, AP2 gives great weight to collaboration with other investors, internationally as well as in Sweden. During the year, the Fund engaged in exchanging expertise with a number of different investors, primarily members of the Fund's business network. This included AP2's close collaboration with the New Zealand Superannuation Fund, Generation Investment Management, ABN Amro Pension Fund, Publica

EMPLOYEES

Pension Fund and Nuveen. For AP2, active participation in current research within the financial sector is a self-evident necessity. Besides conducting their own research, Fund employees also attend conferences at which research results are presented. Read more on the Fund's website about the research in which the Fund's employees participated.

Diversity

AP2 sees the strength of diversity and an inclusive approach. AP2 evaluates and develops employees' performance and expertise, regardless of age or ethnicity, and wants to be an attractive employer for both men and women. The Fund offers flexible working hours, work under own supervision, and parental leave, to enable both men and women to combine a career with their family responsibilities. Two of the Fund's employees took parental leave during parts of 2020.

As part of its diversity work, AP2 supports the Mitt Liv organisation, which is dedicated to increasing diversity and integration in the Swedish labour market. Each year, under the organisation's mentoring programme, five Fund employees have the oppor-

tunity to be mentors for academics with foreign backgrounds who are seeking employment that corresponds to their professional qualifications. Through Mitt Liv, all of the Fund's employees have received training in diversity issues. In addition, the Fund's managers have received separate training in these issues.

Remuneration

To be able to recruit and retain the right staff, AP2 seeks to remunerate its employees at a level that is motivating and consistent with the industry at

large. The Board of Directors of AP2 determines the guidelines for remuneration to senior executives. The guidelines are

reviewed annually by the Board and must be compatible with the Swedish Government's guidelines pertaining to terms of employment as applied at the AP Funds. This addresses the actual decision-making process, as well as the structure and appraisal of appropriate and reasonable remuneration within the

Fund. The Board ensures that the remuneration paid to the Chief Executive and other senior executives is consistent with the Board's guidelines. Read more about remuneration on page 89.

All employees are subject to the terms of the collective agreement between The Employers' Organisation of the Swedish Banking Institutions (BAO) and Akavia/the Swedish Confederation of Professional Associations (SACO).

Recruitment

"AP2 sees the

strength of diversity

and an inclusive

approach."

As a global asset manager operating across a broad range of asset classes,

AP2 fosters many specialist roles and creates many career opportunities. AP2 first and foremost seeks to recruit from

within the organisation and encourages internal mobility. In this way, specialist skills and expertise can better be utilised. For a number of years, the Fund has cooperated with the School of Business, Economics and Law at the University of Gothenburg and Chalmers Institute of Technology, enabling

them to offer students opportunities for temporary employment on specific projects, trainee positions and temporary employment during the summer months. This has created a solid recruitment base for future employees.

Identification of employee-related risks

AP2 will create the conditions for attracting and retaining employees with the skills and experience required for the operations to be run in the best possible way. The Fund's ability to retain competent and committed employees is crucial for driving development in accordance with the strategic plan and achieving the goals set. If the Fund does not have access to the right expertise at the right time, operations and results can be adversely affected.

The Fund is therefore continuously working on competence development with the aim of developing the operations and achieving set goals. In connection with annual appraisals, employees' performance and potential are identified. To identify focus areas that are expected to increase employee satisfaction and commitment, the Fund conducts regular employee surveys.

Anti-corruption work

AP2 has a zero tolerance policy concerning corruption and works continuously on preventive work. The Fund has, among other things, an ethics policy, a compliance policy and an entertainment policy that prescribe how the Fund's employees are to conduct themselves with regard to these issues. The preventive work is driven by the Fund's compliance function and among other things takes the form of training and the development of internal documents. The Fund's managers are responsible for ensuring that their employees understand and act in accordance with the policies. This takes place on a continuous basis via information, discussions and conversations. All employees are also responsible for applying the policies created by the Fund. AP2 has a whistleblower function to which employees can file anonymous reports concerning, for example, unethical conduct. The Fund's General Counsel holds overall responsibility for following up on compliance with the guidelines and reports to the CEO and the Board on important ethical issues concerning the business and employees' conduct.

OVERVIEW

"One issue they have been

addressing together is how the Funds can best contribute to

increasing the transparency of profit

distribution in unlisted assets "

Continued focus on cost effectiveness

For Andra AP-Fonden, high cost effectiveness is important. It is actually so important that it is one of the Fund's investment beliefs, denoting that high cost-effectiveness leads to improved results.

AP2 uses an established method. developed by CEM (Cost Effectiveness Measurement Inc.), to measure and compare the cost effectiveness of pension funds from an international perspective. The method supports comparison that takes account of several factors with a strong impact on the overall costs of managing a fund: the volume of assets under management, the ratio of assets under active management and external mandate, respectively, and the relative allocations for each class of asset. In the study, pension funds' costs are compared with those of an international group of fund managers of approximately the same size and with a portfolio of similar composition. AP2 has participated in CEM's annual benchmark study since 2004 and, according to the latest analysis, which covers

2019, AP2's asset management continues to be successful and cost-effective. With a good margin, the Fund's cost level is still lower than that of the benchmark group, which is mainly due a significantly lower ratio of external management and cost-effective in-house asset management.

Collaboration between the AP Funds' administrative functions

The AP Funds established a collaboration council in 2016 in order to promote the collaboration between AP1, AP2, AP3 and AP4 within all areas outside investment activities. The Seventh AP Fund (AP7) has been part of this collaboration since 2018.

Under the AP Fund Act, the AP Funds have the overall goal of managing the fund assets for the greatest possible benefit of the income pension

system. The reason that there are four AP Funds with the same mission is a wish for risk diversification by encouraging various management strategies, in order to safeguard a secure income pension system. This year's government assessment states that the AP Funds are encouraged to develop collaboration between the Funds, if there are good reasons to do so, for example to reduce the Funds' costs or collaborate on finding other added value. The collaboration must result in increased cost effectiveness for the Funds, without affecting their independence or the diversification of the Funds' respective management models.

Collaboration in 2020

The collaboration groups continued their work in 2020 by using digital platforms to meet to exchange information.

Even though the respective Funds had great focus on maintaining their internal activities during the pandemic, the collaboration groups were still able to share experience and learning, in particular on working methods both at and outside the office.

One issue they have been addressing together was how the Funds can best contribute to increasing the transparency of profit distribution in unlisted assets. The group noted that by joining the ongoing initiatives, together with other global institutional investors, the best conditions could be created to influence transparency in the sector in the right direction, contributing to the development of a common reporting standard.

Other examples of areas of collaboration between the Funds during the year concerned procurement, innova-

tion and new technology, as well as information security. Besides regular joint meetings in each collaboration group, a lot of collaboration also takes place through ongoing contact between the Funds' employees, as an opportunity for discussion of various issues with others working in the same area.

The pandemic was also challenging for IT

In 2020, much IT work was focused on meeting the demands arising when COVID-19 was designated as a pandemic and, like many companies both globally and in Sweden, many of the Fund's employees began to work from home.

Thanks to previous years' work to build a well-designed IT infrastructure, in which all of AP2's employees experience and use the same tools, wherever their workstations are geographically located, working outside the office ran smoothly. In security terms, too, AP2's requirements could be met in full. There was also great focus on improving the experience of and the opportunities to hold virtual meetings, as this creates added value for the environment and also prevents infection.

Security aspects

AP2 monitors the cyber threats and actual cyber attacks that take place around the world. The Fund continues to work and focus on security issues concerning the IT infrastructure and continuously reviews the network, applications and information systems, besides train-

ing and informing personnel, in order to prevent cyber threats. Besides regular penetration tests, in 2020 external specialist companies undertook thorough scrutiny, as well as simulated attacks on both the exterior and interior of the Fund's infrastructure, in order to gain better insights into any vulnerabilities, and to achieve an action list for further prevention of any attacks. Even though the scrutiny and the simulated attacks proved that AP2 is well-protected, cyber security continues to be one of the Fund's prioritised areas, in order to be well-prepared for the rapidly increasing cyber threats in the surrounding world.

Cost-effective collaboration

AP2 works closely with the other AP Funds, sharing information and experience, together with joint coordination of procurement processes, in order to

be more resource- and cost-effective. In 2019, together with the other Funds. AP2 initiated further collaboration in the form of a joint innovation forum. The purpose of the forum is to help each other to spot trends and jointly investigate and understand future technologies that might benefit the AP Funds' activities. Despite the pandemic, and the ensuing market turbulence, the innovation forum served as an incubator for new and innovative collaboration. Among other things, the forum was a basis for the assessment of robot technology (RPA) undertaken by AP2 together with AP3 during 2020. In this project, the Funds could work together both innovatively and proactively to achieve consensus on an introduction strategy and more effective use of competences, which will yield synergy effects in the longer term.

Using the cloud

The Fund's ambition to operate more effectively includes the wish to utilise cloud services. The flexibility of being able to dynamically scale up the computation environments, and the increased accessibility offered by cloud providers, are a good match for the Fund's requirements. The Fund will, however, need to await the outcome of the Swedish State's cloud report before a full cloud strategy can be drawn up and the implementation of more flexible cloud-based modules on the digital platform can commence. The report is estimated to be completed by 31 May 2021 and until then, the Fund will have a continued need to maintain and further develop infrastructure in external hired data hall space.

The work in 2021

The implementation of the adopted IT strategy will continue in 2021. The work on the modular digital platform is also continuing, with great focus on remote working, to reduce travel and infection during a pandemic. Work on security measures continues unabated, with the Fund's introduction of VDI (Virtual Desktop Infrastructure) playing a major role in ensuring transparent working from home practices and maintaining the Fund's resilience to cyber attacks on both office-based and home workstations.

The work of outsourcing selected systems continues, in order to achieve cost savings and also to minimise operational risk and cut the workload of the Fund's operations and support teams.



Contributing to the transition to sustainable development

For some time, Andra AP-fonden has worked to integrate sustainability in its asset management, among other things with focus on climate change, which plays a central role in sustainable development, and also for future economic development and returns on financial assets. During the year, the Fund took a major step towards a carbon-neutral world by 2050 at the latest through the internal development and implementation of multi-factor indices for global equities and corporate bonds, in accordance with the criteria for the EU Paris-Aligned Benchmark.



Political measures are basically required to keep the global temperature increase in line with the requirements of the Paris Agreement. However, this does not prevent institutional investors such as AP2 from having an important role to play.

Limiting global warming to 1.5°C, on which the countries of the world agreed at the Climate Conference (COP21) in Paris 2015, entails a clear journey towards a society without net greenhouse gas emissions. The special report published by the UN's Intergovernmental Panel on Climate Change (IPCC) in October 2018 shows that it is possible to limit global warming to 1.5°C. This requires, however, that by 2030 carbon emissions must have decreased by 40 to 60 per cent compared with 2010, and that net zero

emissions are achieved by 2050, unless large negative emissions are permitted in the calculation.

AP2 is developing its portfolio in line with the Paris Agreement, with the aim of a net zero emission portfolio by 2045. In 2020, the Fund developed indices for global equities and corporate bonds in accordance with the EU Paris-Aligned Benchmark (PAB) criteria, which are based on the UN Intergovernmental Panel on Climate Change's 1.5°C scenario with limited overshoot.

On this basis, AP2's ambition is to reduce the portfolio's carbon footprint by influencing companies to reduce their carbon emissions in line with the Paris Agreement.

AP2 is developing various metrics to describe the portfolio's development

in relation to the Paris Agreement. As a first step, in 2019 the Fund introduced a metric to show the proportion of the change in the carbon footprint that is due to portfolio companies changing their emissions, and the proportion due to changes in company holdings. It is only when companies reduce their actual emissions that emissions to the atmosphere are reduced, and the climate improves. In AP2's efforts to contribute to the transition, the Fund uses various means to encourage portfolio companies to change course and reduce their carbon emissions.

The upper graph on page 43 shows the curve below which the global equity and credit portfolios' carbon footprint must lie, in order to fulfil the criteria for PAB. The lower graph on page 43 presents the carbon footprints of a market-weighted index and equivalent portfolios. These footprints include Scope 1, 2 and 3 in accordance with the PAB framework. This entails the inclusion of both direct and indirect emissions, including those arising in the supplier link, and emissions from products and services.

As the graph shows, in 2019 the Fund's portfolios' carbon footprint exceeded the market-weighted index. The implementation of PAB considerably reduced the carbon footprint of the PAB-adjusted portfolios. The greatest reduction was seen for equities in emerging markets. More data concerning the Fund's other metrics for its carbon footprint can be found on page 57.

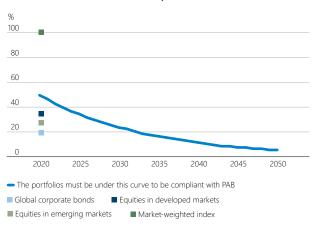
Investments in sustainable strategies

Creating a low-carbon society requires, among other things, a conversion of energy and transport systems. Several of the private equity funds in which AP2 invests focus on companies whose products and services enable resource-efficient solutions. AP2's investments in green bonds, Swedish cleantech companies, timberland and sustainable infrastructure are further examples of investments with sustainable strategies that have a positive climate impact.

During the year, the Fund worked on developing and implementing multifactor indices for global equities and corporate bonds that are in line with the criteria for PAB. Almost half of the

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CARBON FOOTPRINT IN PAB-ADAPTED PORTFOLIOS IN RELATION TO MARKET-WEIGHTED INDEX, %



TOTAL CARBON FOOTPRINT FOR THE ADAPTED PORTFOLIOS, 2020



Fund's portfolio is thereby managed in accordance with criteria designed to reduce carbon emissions considerably and re-allocate capital to climatefriendly investments. According to the PAB criteria, companies that receive more than 1 per cent of their turnover from coal, more than 10 per cent from oil or more than 50 per cent from gas may not be included. Power companies with more than 50 per cent of their energy mix from fossil energy may not be included either. This entailed that the number of companies with direct exposure to fossil energy sources fell strongly by a further 170 companies (the Fund has already divested 80 fossil-energy companies due to climate-related financial risks). This also entails a reduction of the portfolio's carbon footprint by around 70 per cent for both global equities and corporate bonds, compared with previous year, taking account of Scope 3 emissions in accordance with the criteria for PAB. Read more on pages 50-52.

There is also assessed to be a strong need for investment in sustainable infrastructure and during 2019, the Fund therefore decided to make an allocation to this. In 2020, three investments were made; one within decentralised infrastructure and two in investment platforms for the new installation of renewable electricity production. These investments are well in line with AP2's overall mission to promote sustainable development without compromising the overall goal.

Dialogue with companies

AP2 participates actively in Climate Action 100+, a five-year international dialogue initiative launched in December 2017. More than 450 investors from 32 countries are working collaboratively on dialogues with 167 companies. These companies account for significant shares of the world's greenhouse gas emissions (Scope 1-3), an estimated approximately 80 per cent of global industrial greenhouse gas emissions. The aim is to persuade them to reduce their emissions to a level in line with the Paris Agreement, that they report in accordance with the Task Force on Climate-related Financial Disclosures (TCFD), and that their

boards take clear and unequivocal responsibility for the work of addressing climate change.

Climate Action 100+ came into being three years ago and many advances have been made. However, much more needs to be done to achieve the purpose of the initiative. The 2020 annual report for the initiative reports that 43 per cent of the companies have now taken measures to reach net zero emissions by 2050, although only 10 per cent include the company's Scope 3 emissions.

In 2020, a new framework for measuring companies' relative progress was developed, Climate Action 100+ Net Zero Company Benchmark. The first individual company results will be published in the spring of 2021. More about Climate Action 100+ and the work carried out in 2020 can be found in the annual report for the initiative at www.climateaction100.org

AP2, together with Öhman, is leading the dialogue with AB Volvo, which is one of the companies in the initiative. There has been constructive dialogue, but the investor group found

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that Volvo's position concerning the Paris Agreement needed to be clearer. AP2, together with eight other investors, therefore made a statement on this issue at the company's annual general meeting in June. Volvo responded that they assess that they are well-positioned to meet the transition required and that they will continue to develop their reporting. During the autumn of 2020, the Volvo Group announced that they support TCFD and will develop their reporting in accordance with its recommendations. They have determined that their ambition is for the Group to be emission-free by 2050. Volvo has also joined the Science Based Targets initiative and will adopt goals and a roadmap during 2021. The dialogue with AB Volvo is continuing.

Dialogue with decision-makers

AP2 has been a member of the Institutional Investor Group on Climate Change (IIGCC) for several years. The organisation is working to make investor engagement in the climate issue clear to decisionmakers and to pro-

mote investors' demands for policy measures that enable increased investments in climate-smart solutions. Among other things, the IIGCC, together with a number of other investor organisations, has published a document, Global Investor Statement on Climate Change, which describes how investors can contribute and what expectations investors have of governments. More than 600 investors have signed this document.

During the year, AP2 and 176 other investors signed an open letter to EU leaders with recommendations aimed at supporting a sustainable economic recovery after COVID-19. The recommendations call for the EU to create a recovery that prioritises climate action critical to meeting the Paris Agreement's net zero emissions goal by 2050.

Another example of dialogue with decision-makers is an initiative led by Storebrand. At the end of June, AP2 and just over 30 other investors wrote an open letter to the Brazilian embassies in the investors' home countries expressing concern about the increasing deforestation of Amazonas and its

negative effects on the climate, biodiversity and the rights of the indigenous population. The initiative has attracted considerable attention, not least in Brazil. During the year, the investors, including AP2, met with representatives of the Brazilian government and the vice-president, and the spokesperson and representatives of the Congress. At these meetings, the investors presented five issues that they want addressed and significantly improved: 1) a radical reduction in the rate of deforestation, 2) that existing protection legislation is actually applied, 3) that the authorities in Brazil that monitor environmental issues and human rights are given funds and the opportunity to promote their mandate, 4) that measures are taken to reduce the risk of a recurrence of the major forest fires in 2019, and 5) improved access to transparent data on deforestation and supply chains, making it possible to monitor development. This initiative has now been formalised as a project within PRI, Investors Policy Dialogue on Deforestation in Brazil.



The UN's Sustainable Development Goals

In September 2015, the 193 member states of the UN unanimously adopted 17 Sustainable Development Goals. The goals, to be achieved by 2030, aim to end poverty and create a sustainable world. The 17 global goals have been divided into 169 targets that are measured by various indicators.

Each country is responsible for implementation and follow-up on the Sustainable Development Goals. To achieve the goals, governments, civil society and business and industry are required to work together.

The 17 Sustainable Development Goals are integrated and indivisible, which means that no goal may be achieved at the expense of any other goal, and that progress is required in all areas, for the goals to be achieved. The Paris Agreement is an integral element of the UN's Sustainable Development Goals. As a global investor, AP2 can contribute to achieving the goals in various ways; through the Fund's sustainability work and through the investments it makes.

Examples of investments

Since 2017, AP2 has invested in The Rise Fund, a private equity fund that is managed by TPG Growth. During 2020, AP2 also invested in The Rise Fund II. Together

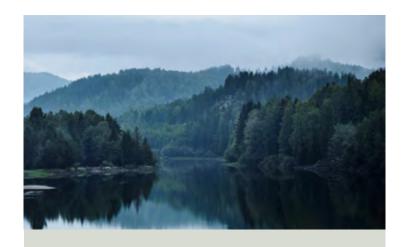
the funds have approximately USD 4.5 billion in total undertakings, primarily from global institutions, which makes them the largest impact funds ever established. The objective of The Rise Fund is to achieve measurable, positive social and environmental results, as well as financial returns comparable with the market. All investments must have a positive impact on at least one of the UN's Sustainable Development Goals. The Rise Fund measures the specific size of the impact a potential investment is expected to have during its investment life cycle, with focus on the impact result as defined by the UN's Sustainable Development Goals. More information is available at https://therisefund.com/

Green and social bonds

AP2 works actively to implement and develop sustainability aspects within asset management. For some time, the Fund has invested actively in green and social bonds. The special characteristic of these bonds is that the investments are in climate projects, or projects to tackle social challenges, and that investors receive information about these projects. As a general rule, these projects are directly connected to at least one of the UN's Sustainable Development Goals.

Investing in green and social bonds is an effective and successful way of implementing sustainability aspects in the Fund's fixed-income management and thereby achieving greater transparency and understanding of sustainability issues in the fixed-income portfolio. AP2 has invested in green bonds since 2008 and made its first investment in a social bond in 2014.

The Fund's ambition is to aggregate reporting for these bonds in order to give an overall picture. Today, there is no defined reporting standard and this reporting varies considerably, depending on such factors as the issuers' areas of



Mapping the portfolio

Investing in both green and social bonds gives a wider range of sustainability aspects in the fixed-income portfolio. Review of the reporting of all holdings of social and green bonds at project level, whereby each project is connected to the UN's Sustainable Development Goals, gives a clear picture of a sustainable and diversified fixed-income portfolio. Green bonds focus primarily on Sustainable Development Goals related to the environment and climate, while social bonds focus on such areas as health, working conditions and economic growth. The chart on page 46 shows the market value of the Fund's total holdings of SEK 16 billion in relation to the UN's Sustainable Development Goals.



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activity, where they operate, etc. During 2020, AP2 again analysed and compiled reporting for all of the Fund's green and social bonds. The reporting clearly shows that more and more issuers are linking their projects to the UN's 17 Sustainable Development Goals. Half of the projects reported on during the year account for their contributions to the UN's Sustainable Development Goals. For issuers that do not report according to the goals, the Fund has applied the framework created by the International Capital Market Associations (ICMA). More information is available at www.icmagroup.org

The aim of the analysis was to illustrate the practical implementation and diversification of sustainability within AP2's fixed-income management.

In total, the Fund has currently invested in 148 different issuers of green and social bonds. These finance around 4 000 projects, of which around half are green and half are social.

Active involvement

AP2 is also committed to the Sustainable Development Goals in other ways. On many occasions, the Fund's CEO, Eva Halvarsson, has reported on how the Fund's investments contribute to achieving the goals. Eva Halvarsson has also given a number of

interviews, primarily in international media, about the work of the Fund.

One of the Fund's employees is also a member of the PRI Advisory Committee concerning the UN Sustainable Development Goals.

AP2 has also taken part in the financial sector's 'Finance Against Slavery and Trafficking (FAST)' commission. FAST aims to eliminate modern slavery, human trafficking, forced labour and child labour, in accordance with target 8.7 of the UN's Sustainable Development Goals. AP2 was one of only two institutional investors to take part in the commission's work.

Together with some of Europe's largest pension managers, AP2 has signed a position on the importance of institutional investors investing in solutions that contribute to achieving the UN Sustainable Development Goals. Since the Fund considers it important to have a common definition of 'Sustainable Development Investments', in the position paper it encouraged other major institutional investors to take similar initiatives.

The Fund has also signed the 'Stockholm Declaration' initiative. Through this initiative, both Swedish and international investors acknowledged that the UN Sustainable Development Goals will constitute a central framework for investments up to 2030.

Contributing to the UN Sustainable Development Goals

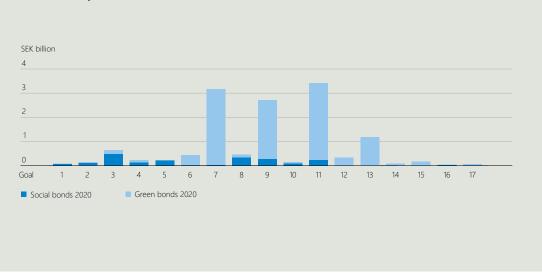
AP2's analysis shows that the Fund has a total of SEK 16 billion invested in green and social bonds that are directly linked to some of the UN Sustainable Development Goals.

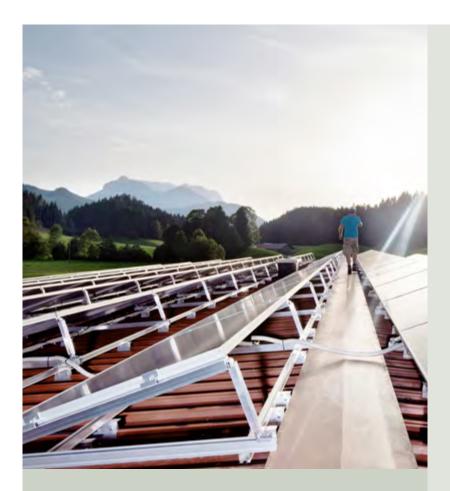
AP2's analysis shows that the green bonds in the Fund's portfolio primarily contribute to

- Goal 11 Sustainable Cities and Communities
- Goal 7 Affordable and Clean Energy
- Goal 9 Industry, Innovation and Infrastructure.

The social bonds primarily contribute to

- Goal 3 Good Health and Well-being
- Goal 8 Decent Work and Economic Growth
- Goal 9 Industry, Innovation and Infrastructure.





MISSION AND GOAL

About the Sustainability Report

Andra AP-fonden presents a separate detailed Sustainability Report, including GRI index, that is published on the Fund's website. The sustainability information in the Annual Report is a summary only. The Fund also has the ambition to adhere to the content of Part 6, Sections 11–12, of the Swedish Annual Accounts Act. This section includes information about the work on climate issues, as well as respect for human rights. Here, the Fund also presents a summary of the work on diversity and corporate governance. Information concerning anti-corruption can be found on page 38, and on social conditions and employment on pages 37–38.

Sustainability reporting

Andra AP-fonden's sustainability work comprises the environment, ethics, social issues and corporate governance. The aim of the Fund's sustainability work is to create and protect values and to contribute to sustainable development.

By including sustainability aspects in analyses and investment processes the Fund gains broader and better data as its basis for decisions. The Fund is also committed to maintaining a high level of confidence by taking the lead on sustainability issues, while also contributing to the development of sound practice in asset management issues.

Significant events during the year

- The Fund internally developed multi-factor indices for global equities and corporate bonds, in line with the EU Paris-Aligned Benchmark. This among other things entails a reduction of the carbon footprint from portfolios with global equities and corporate bonds by around 70 per cent compared to a market-weighted index. Read more on page 43.
- During the year, the Fund created a strategy for its work with human rights.

- For the third consecutive year, AP2 published a report in accordance with the TCFD (Task Force on Climate-related Financial Disclosures) framework.
- The UN's Principles for Responsible Investment (PRI) have included AP2 in 'Leaders' Group 2020'. This group showcases signatories at the cutting edge of responsible investment. The theme this year was climate reporting.
- The Fund was nominated by ICGN
 (International Corporate Governance
 Network) for the 'Global Stewardship
 Disclosure Awards'. The purpose of
 these awards is to recognise those
 investors who provide genuine insight
 into their stewardship policies and how
 they are implemented, and whose
 approach to disclosure provides a
 model that others might follow.

Sustainability work affected by COVID-19

In 2020, the Fund's sustainability work was affected by COVID-19 to a certain

extent. This primarily affected attendance at general meetings, but also dividend proposals and board remuneration. Temporary legislation allowing postal voting was fast-tracked through the Swedish Parliament and came into effect at the beginning of April. This enabled the general meetings to be conducted in a satisfactory manner. In several nomination committees, the Fund has sought not to increase board remuneration for 2020.

The government's evaluation of the AP Funds' sustainability work

Within the framework of the Swedish Government's annual evaluation of the AP Funds' activities, McKinsey conducted an in-depth analysis of the AP Funds' sustainability work. In its evaluation, the government notes that "the AP Funds are at the forefront of sustainability compared with leading institutional investors globally and they continue to improve their work in line with the rapid

development in this area". According to McKinsey, the AP Funds excel particularly with regard to their ownership commitment, and are also at the forefront of integrating sustainability into asset management. McKinsey notes that "the Funds are continuously developing new methods to take sustainability into account in their investments and for the management organisations to take responsibility for the implementation of the sustainability work".

AP2's framework

AP2 is a government agency whose activities are regulated in the Act (2000:192) on Swedish National Pension Funds.

The AP Funds' mandate includes generating a high rate of return while maintaining a low level of risk. The investment strategy must make provision for the impact of pension disbursements, as well as the liquidity requirement associated with outflows from the funds. It is important that AP2 has the confidence of the general public and acts in a responsible manner. The revised Act states that the AP Funds must manage

their assets in an exemplary manner through responsible investments and responsible ownership.

The Fund gives high priority to both sustainability and responsible action. A proactive approach to the environment, ethics, social issues and corporate governance are means to attain the goal of a high, risk-adjusted return.

Guiding documents for the sustainability work

AP2 has a number of policies and guidelines that form the basis for the sustainability work (see the description on page 49). Information and training in these policies and guidelines are provided on a continuous basis. The Fund undertakes an annual review of policies and guidelines, with follow-up via controls and procedures for its activities.

Regulations and conventions that also form the basis for AP2's sustainability work include the OECD Guidelines for Multinational Enterprises and corporate governance, the UN Global Compact, the UN's Guiding Principles on Business and Human Rights, the Swedish Companies Act and the Swedish Code of Corporate Governance. AP2 also adheres to other specific corporate governance codes such as the ICGN Global Stewardship Principles and the UK Stewardship Code, as well as the EU's work on Sustainable Finance.

AP2 supports and works to implement the UN-supported Principles for Responsible Investment, PRI. The Fund signed these principles back in 2006 when they were launched. AP2 also follows the PRI's Guidance for Responsible Investment in Farmland. The Guidance was drawn up in 2011 by AP2 and a group of international investors. AP2's reporting on the implementation of these principles can be found on the Fund's website.

Organisation and distribution of responsibility

AP2's Board determines guidelines and policies in governance issues and has mandated the CEO of the Fund to manage these in the ongoing operations of the Fund. The Fund's Executive Management, together with the head of the strategy department and the Fund's senior sustainability analyst, are

responsible for the strategic sustainability work and for implementation and follow-up. The day-to-day work is handled by the Fund's various departments.

The ongoing corporate governance work is conducted by the Fund's Corporate Governance Group, which consists of members from the Fund's Executive Management, the corporate governance analyst and the head of Swedish equities. Based on the Fund's corporate governance strategy, the Corporate Governance Group prepares action plans and continuously follows up the work.

At each board meeting, AP2's Board receives a report on the Fund's sustainability and corporate governance work.

The Council on Ethics of the AP Funds

Dialogue with foreign companies is coordinated through the AP Funds' joint Council on Ethics. The Council on Ethics is a collaboration between AP1, AP2, AP3 and AP4, and was launched in 2007. The Council on Ethics is in dialogue with companies all over the world. Dialogue is an important tool to influence and to achieve positive change. The companies with which the Council on Ethics conducts dialogue are identified primarily in conjunction with the AP Funds' biannual screening of their total shareholdings, with a view to determining whether any portfolio company is in

The Fund's definition of sustainability

AP2's sustainability work emanates from the Fund's mission and entails a long-term initiative to protect and build value in investments – from an economic, environmental and social perspective.

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contravention of an international convention. This screening is conducted by an external consultant. The work is based on the principles of commitment, action and change, with the intention of making a difference. The Council on Ethics identifies companies that can be linked to violations of conventions and focuses on persuading such companies to deal with confirmed violations and to implement systems and measures to preclude future violations.

In 2020, Christina Olivecrona, AP2's senior sustainability analyst and member of the Council on Ethics, was the chair of the Council on Ethics.

Read more at www.etikradet.se

Stakeholder dialogue and materiality analysis

Continuous dialogue with stakeholders provides important guidance in the Funds' sustainability work. In order to investigate how the stakeholders view the AP Funds' mission and activities in relation to sustainability and returns, during the autumn AP1, AP2, AP3 and AP4 conducted a stakeholder dialogue together with the Council on Ethics.

The dialogue was conducted as an online survey that was sent out to just over 200 people within the AP Funds' eight most important stakeholder groups. The stakeholder groups consisted of clients (Pension Group, Finance and Social Insurance Committees and the Ministry of Finance), portfolio companies, suppliers, industry colleagues, beneficiaries, society, stakeholder organisations and employees.

Overall, the dialogue showed that the stakeholders have good knowledge of the AP Funds' activities and a high level of confidence that the AP Funds fulfil their mission. The stakeholders also have a high degree of confidence in the AP Funds' work with and integration of sustainability issues in the asset management process. The dialogue also showed that the AP Funds can become better at managing and communicating sustainability-related risks and opportunities in their investments.

Prioritised sustainability areas

In the survey, the stakeholders ranked twelve selected sustainability areas according to how important they

Andra AP-fonden's management of sustainability-related issues

DECISION- MAKING LEVEL	CATEGORY GOVERNING DOCUMENTS		FOLLOW-UP	GOALS AND OUTCOMES 2020			
	Strategy	Operating plan, including corporate governance policy	This is followed up by the Board and Executive Management. Followed up by the Board and	Goal: Long-term expected annual real return of	Outcome: In five years, 5.7%, and in ten years, 6.6%.		
	Return	and sustainability policy	Executive Management and reported in the annual and half-year reports.	4.5%.			
RECTORS		Ethics policy	The General Counsel holds over- all responsibility for the follow-up	Goal: No form of corruption, or	Outcome: 0 cases.		
BOARD OF DIRECTORS	Code of Conduct	Compliance policy	on how the guidelines are com- plied with and reports to the Board of Directors on important ethical issues concerning the	giving or taking bribes.			
BOARI		Principles for hospitality and gifts	operational activities and the employees' conduct.				
		Policy for human rights		Goal: See separate	Outcome: See		
	Sustainability	Financial sustainability areas	The work is followed up by the Board of Directors,	Sustainability Report.	separate Sustain- ability Report.		
		Environmental policy	Executive Management and steering groups.	Goal: Increase the number of train jour- neys between Goth- enburg and Stock-	Outcome: See page 57.		
		Sustainability strategy		holm. Reduce the number of printouts.			
SEMENT		HR policy					
MANAC		Equality and diversity plan		Goal: Increase the proportion of	Outcome: 29 (28)%.		
CEO/EXECUTIVE MANAGEMENT	Staff manual	Anti-discrimination policy	The CEO is responsible for ensuring that policies and plans are drawn up. The	female managers at AP2.	23 (20)70.		
	Statt manual	Working environment policy	overall work is planned and followed up by the Fund's HR manager.	Goal: No employee may	Outcome: 0 cases.		
		Hospitality policy		be exposed to discrimination.			
		Travel policy					

considered each area to be for the AP Funds to take into account in their asset management operations and in their advocacy work with the companies. Five areas were considered equally important for all stakeholders:

- Business ethics
- · Anti-corruption
- Long-term returns
- · Human rights
- · Climate change.

Several stakeholders pointed out that the AP Funds' sustainability work should be characterised by a holistic perspective and that all of the sustainability areas are important in the AP Funds' overall sustainability work. Prioritisation of sustainability areas should be based on the type of company, sector and location.

Stakeholders emphasised that the AP Funds can improve their communication through increased transparency and greater visibility in the debate. They voiced a strong wish for the AP Funds to provide increased transparency concerning their corporate dialogue and their results. Regular dialogue with the wider community was also considered important for driving a value-creating change process.

Sustainability strategy

AP2 worked according to the Fund's sustainability strategy during the year. The strategy is based on the statutory mission and the Fund's investment beliefs. The strategy also reflects the Fund's vision and values.

The investment beliefs provide the outer framework for the Fund's approach to sustainability in its asset management activities. In addition, given the beliefs, a number of more specific sustainability principles have been adopted. The sustainability strategy is based on these principles, with the aim of specifying the activities to be undertaken in order to

achieve the overall goal of a sustainable strategic target portfolio, including a portfolio in line with the Paris Agreement. Read more on page 42. AP2's six sustainability principles are:

- 1. AP2 integrates sustainability in all investment processes.
- AP2 actively seeks investments that contribute to sustainable development.
- 3. AP2 works on the basis of the focus areas.
- 4. AP2 uses dialogue as a tool.
- 5. AP2 takes a scientific approach.
- 6. AP2 seeks to be a leader in sustainability.

The sustainability strategy also includes goals to analyse how the Fund's sustainability work affects return and risk.

Climate

Climate issues are integrated in the Fund's analysis and decision-making processes for all asset classes for which this is relevant. The ambition is to develop the portfolio in line with the Paris Agreement. The basis for the Fund's climate work is to reduce the

climate-related financial risk while also contributing to the green transition. In a document published on the Fund's website, AP2 has described its approach to the climate transition and described why and how the Fund works with climate issues.

Climate change is assessed to potentially have a great impact on the long-term return. It is therefore becoming increasingly important to integrate climate change aspects into risk assessments and investment decisions. Financial climate risks can be divided into two groups: transition risks and physical risks. Transition risks are divided into policy and legal risks, technology risks, market risks and reputation risks. Physical risks are divided into acute risks and chronic risks.

In 2013, AP2 began analysing climate-related financial risks for fossil energy companies and then continued with coal-based electricity companies. A key starting point for this work was that the climate-related risks facing the companies are not correctly priced by the market. The Fund's work to analyse climate-related financial risks for these

SUSTAINABILITY STRATEGY BASED ON THE FUND'S MISSION



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sectors was focused on regulatory risks. Since AP2 has implemented equity and credit indices that are in line with the EU Paris-Aligned Benchmark (PAB), the Fund has concluded this analysis of climate-related financial risks for fossil energy companies and coal-based power companies. AP2 recognises that there is significant value in being able to align its indices to the goals of the Paris Agreement, based on a scientifically validated framework established by the EU. The aim of this regulatory framework is not only to reduce greenhouse gas emissions and achieve net zero emissions by 2050, but also to benefit companies that make a positive contribution to the climate transformation.

The fact that AP2 has now implemented PAB entails that the Fund does not invest in companies which achieve more than a certain proportion of their sales from coal, oil and/or gas, or in power companies which achieve more than 50 per cent of their revenue from combustion of fossil fuels. The maximum proportion for coal is 1 per cent, for oil 10 per cent and for gas 50 per

cent. This has resulted in a total of 250 companies no longer being included in the Fund's portfolio. The framework also includes requirements concerning the index's carbon footprint, which may not exceed 50 per cent of the equivalent market-weighted index. Furthermore, the footprint must be reduced by 7 per cent per year, with the aim of achieving net zero emissions by 2050. For AP2's portfolios of global equities and corporate bonds, the reduction was 70 per cent, on taking account of Scope 3 emissions in accordance with the criteria for PAB. Many of the sectors that are carbon-intensive today are necessary for the transition. Another requirement is therefore that the index needs to have at least the same total exposure to sectors with a high climate risk, such as electricity generation and transport, as a market-weighted index. It is hoped that this requirement will increase the rate of transition in these sectors, since investors with portfolios in accordance with the criteria for PAB need to invest in companies with diminishing emissions. Read more on page 30 and in AP2's Sustainability Report.

AP2's focus areas

One of the AP2's six sustainability principles is to base its work on focus areas. According to this principle, AP2's sustainability work is concentrated primarily on a number of prioritised focus areas that the Fund considers to be the most important. AP2 has extensive expertise and experience in the selected focus areas, having worked on these issues for a considerable time. The Fund also expects to work with these areas for long into the future.

The Fund's focus areas within sustainability are:

- Climate
- Corporate governance
- Diversity
- · Human rights.

The work carried out in these focus areas targets companies in which AP2 has invested most heavily and/or those in which it controls a substantial interest and in sectors that are deemed to pose considerable financial sustainability risks. The reason is that the Fund must focus on areas and companies which are the most financially important for the Fund. The work on human rights issues is conducted first and foremost from a severity perspective in accordance with the UN Guiding Principles. This can take place in cooperation with other investors in order to achieve improvements for an individual company and/or within a sector. The work on focus areas is also carried out internally.

Goals broken down into long-term and short-term goals for each focus area, and activities for achieving the goals, are specified in the Fund's annual business plan for sustainability and in the action plans for each asset class. Detailed reports for the respective focus areas can be found in the Fund's Sustainability Report. www.ap2.se



For the third consecutive year, in 2020 AP2 published a report in accordance with the TCFD (Task Force on Climate-related Financial Disclosures) framework. The AP Funds support the recommendations in the TCFD framework, since this increases the companies' transparency and gives investors the information needed to assess a company's climate risks and opportunities.

The Fund's own direct environmental impacts are relatively limited. An internal environmental review shows that the greatest environmental impact from AP2's office comes from electrical energy consumption and carbon emissions associated with travel. Due to the COVID-19 pandemic the Fund's employees have not travelled by air since March, which has brought a drastic reduction in aviation-based emissions. Internal targets have been set up on the basis of the internal environmental policy. Among other things, 98 per cent of all business journeys between Gothenburg and Stockholm are made by train.

Handling of climate-related risks

Climate risks have a unique position among sustainability risks, since the consequences of climate change are both extensive and complex. Major climate changes can suddenly occur when a critical point is reached, and can also trigger a domino effect with further negative consequences. Major changes in society will take place in the transition to economies with net zero emissions. Since neither physical climate risks nor transition risks are fully and completely priced, such sudden changes can have a great impact on how different assets are valued.

Climate change can potentially create financial instability, resulting in serious negative consequences for the financial sector and the overall economy. This is why AP2 considers climate change to be a systemic risk, and this is one of the Fund's investment beliefs. This entails that the Fund develops its portfolio to bring it in line with the Paris Agreement. An example is the introduction of indices based on the EU Paris-Aligned Benchmark. The Fund is also engaged in achieving positive

change through dialogue with companies and decision-makers.

Further details of the Fund's work with climate risks can be found on pages 42–44 and in AP2's separate Sustainability Report and TCFD Report.

Respect for human rights

AP2 is working actively to take human rights into consideration throughout its operations and to further develop the Fund's integration of these issues into the investment process. Human rights is a broad and complex area, however. In the spring of 2020, the Fund therefore worked on clarifying its intention and governance of its human rights work in order to ensure a sustained focus on prioritised issues from a severity perspective. This entails that risks are assessed on the basis of the impact on people and not the financial risk to the investment. This work has resulted in revision of AP2's human rights policy, while a strategy has been drawn up and a long-term goal up to and including 2025 has been adopted. The goal is for AP2 to continue to implement the UN's Guiding Principles and for activities to

be conducted in line with these principles as from and including 2025. The policy has been adopted by AP2's Board of Directors and will be reviewed on an ongoing basis. The policy is published on www.ap2.se

AP2 conducts an annual internal mandatory training course in human rights for all of its employees. This year's training was based on AP2's new human rights policy, which was an important aspect of implementing the policy throughout the organisation.

Identification and handling of risks related to the Fund's holdings

AP2 is exposed to a risk of negative impacts in several situations, among other things through its role as employer, customer of suppliers and counterparty to other financial institutions, and as a capital owner and capital manager. The Fund has previously assessed the risks of potential negative impacts caused by the Fund itself or that could be present among the Fund's suppliers. The Fund's assessment is, however, that the most serious negative impact that it can have a

connection to lies in the role of capital owner and capital manager. AP2 has therefore given special focus to the work of integrating human rights issues in its investment decisions.

AP2 has charted potential and actual risks related to the aforementioned roles, in order to assess these from a severity perspective. By potential risks is meant situations where there is a risk of a negative impact occurring, and where the Fund works proactively to prevent a negative impact. By actual risks is meant situations where a negative impact de facto affects individuals and groups, and where the Fund works reactively to minimise the negative impact.

An important step in the proactive work is to identify potential risks connected to the Fund's holdings. During the year, AP2 developed a quantitative model to chart human rights risks in various sectors, countries and portfolio companies. The starting point for the risk assessment lies in the human rights risk, and not in the Fund's activities or financial risk. The purpose of the model is to help the Fund prioritise what its

preventive efforts should address, based on the severity of the risks.

During 2019, as one of the first investors in the world AP2 published a report on the Fund's human rights work in accordance with the framework for the UN's Guiding Principles. The report describes how the Fund views its responsibility to respect human rights and the processes which the Fund has in place to integrate human rights in its activities. The report describes areas in which the Fund has taken important steps to develop its work, but also reports on some of the challenges identified.

Read more at www.ap2.se

The mission as the basis for the corporate governance strategy

The background to the Fund's corporate governance work lies in its overall mission. Among other things, this means that AP2 must be a responsible owner.

To succeed in this, it is necessary to identify the areas where the Fund's investments are expected to have the greatest potential to influence and do most good. In the next step, there

should be realistic opportunities to focus resources on these areas. Based on this, AP2 has formulated:

- Ten principles of corporate governance within which the Fund considers it important to have a standpoint and act on these in relation to companies. The principles are based on the assessment that the greatest risks from a corporate governance perspective concern a company's shareholder protection and its effective governance.
- The corporate governance strategy
 describes the way in which the Fund,
 in the next step, chooses to influence the companies where the risk is
 deemed to be high within one or
 more of the areas of principle. For an
 institutional manager like AP2, the
 main tools are voting, dialogue, and
 collaboration with other institutional
 owners and joint initiatives.
- Targets and metrics to be able to quantify, as far as possible, the fulfilment of objectives and, in the best case, the effect achieved. The latter is considerably more challenging and therefore has a longer time horizon.

Overall, during 2020 AP2 voted at 110 (85) annual general meetings in Swedish listed companies, and at 1 006 (865) annual general meetings of foreign companies.

During the 2020 annual general meeting season, AP2 was represented on nine nomination committees.

There is further information on AP2's corporate governance work in the Fund's separate Sustainability Report.

Diversity

Diversity, and in particular increasing the proportion of women on boards and in executive management teams, was one of the first governance issues on which AP2 began to focus. Since then, the Fund has contributed to positive development in this area through, among other things, dialogue with companies regarding the selection processes for boards and executive management teams. Today the Fund also has investments linked to diversity and equality, and diversity is one of the factors in the Fund's proprietary indices.

Index of Female Representation

With its annual Index of Female Representation, AP2 aims to spread knowledge, contribute to dialogue and objective debate and, above all, increase the proportion of women on boards and in executive management teams. The Fund believes that a broader recruitment basis promotes diversity, which has a positive influence on boards and executive managements. With greater diversity of gender, background and experience, among other things, groups will be more innovative and creative, which in turn creates prosperous and successful companies. Since 2003, the Fund has conducted a study to measure the proportion of women at middlemanagement level, in executive management teams, and on boards of listed companies. Information from the Index of Female Representation is used in the Fund's corporate governance practices and is followed up at the annual general meetings that the Fund attends over the course of the year.

The Index of Female Representation for 2020 shows that the percentage of female board members in companies

listed on Nasdaq Stockholm is 33.7 (34.0) per cent, a slight decrease for the first time since 2013. The proportion of women in executive management teams is increasing and amounted to 24.3 (24.0) per cent at the year's measurement. The percentage of women CEOs is also increasing and exceeds 10 per cent for the first time. Nomination committees with women is positively correlated with boards that have a higher proportion of women. Companies without any nomination committee have a lower percentage of women on the board than other companies. Read the full report on AP2's website.

Collaboration with other investors

In addition to the collaboration between the AP Funds in the Council on Ethics, AP2 works collaboratively with other Swedish and international investors. AP2 is also a member of and supports various Swedish and international initiatives relating to environment, ethics, social issues and corporate governance. The Fund cooperates with other investors to influence new legislation, primarily within corporate

governance. These collaborative efforts are becoming increasingly important in influencing and bringing about change, and thereby enhancing long-term shareholder value.

Collaboration on climate issues

AP2 works with other European investors on climate issues through membership of the IIGCC (Institutional Investors Group on Climate Change). The aim is to promote the investors' views on climate issues and to engage with companies, authorities and other investors in order to highlight long-term risks and opportunities that arise in connection with climate change.

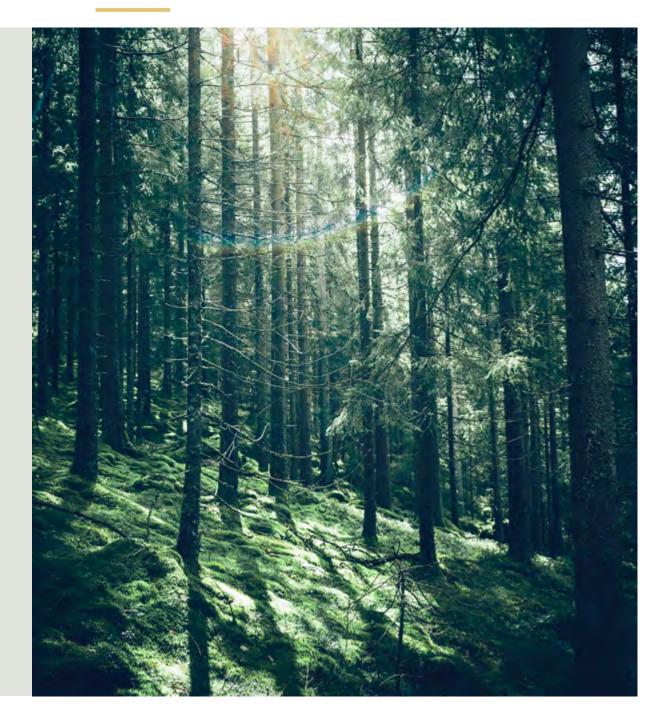
IIGCC is an effective platform to promote investors' wishes in the climate area. IIGCC also works to support its members in their climate work. In 2020, for example, a 'Net-zero Investment Framework' was created as a framework for how investors can develop their portfolios in line with

the Paris Agreement. More information is available at www.iigcc.org. Read more about the cooperation in IIGCC and the Climate Action 100+ dialogue project on page 43.

Cooperation on human rights

Human rights issues are often complex and global, and are therefore best handled in collaboration with other players. The work of the Council on Ethics is an example of how the AP Funds can together achieve a greater impact through joint initiatives. AP2 has also engaged in international collaboration to promote human rights, such as PRI's collaboration concerning human rights for the Uighurs in Xinjiang province and the PRI and UN Business and Human Rights initiative to illustrate and prevent forced labour in supply chains.

A full Sustainability Report for 2020 is available on the Fund's website.



FUND GOVERNANCE

Climate report for 2020 according to TCFD's framework – Summary

Andra AP-fonden has reported in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) since 2017. This year, this is a separate report and only a summary is given in the Annual Report. Read more at www.ap2.se

a) The Board's supervision of climate-related risks AP2's Board receives ongoing information on the Fund's sustainability work, which includes climate-related issues. The Governance Board has the opportunity to discuss ESG and climate issues at each meeting. The Board receives a yearly climate report and opportunities containing information on the various activities of the Fund in relation to the climate. All senior executives have a responsibility for taking climate issues into account according to their various roles. Since b) The management's role in assessing and handling the Fund is a small organisation, where several senior executives are directly engaged in the climate-related work, the climate-related risks and opportunities Executive Management is familiar with the work that takes place. Thus, the Fund has good opportunities to assess and manage climate-related risks and opportunities. a) Climate-related risks and opportunities identified Given AP2's long-term investment horizon (30 years) it is crucial to take climate aspects into account in investment Strategy decisions. This needs to be done all the way from the highest strategic level to the individual investment. The Fund's by AP2 in the short, medium and long term goal is to develop a sustainable strategic portfolio in line with the Paris Agreement, by taking account of and reducing the climate-related financial risks and contributing actively to the transition. In the shorter term, the transition to a b) Climate risks and opportunities in investment low-carbon society also entails investment opportunities, such as in sustainable infrastructure. strategies Asset management works actively to include climate risks and opportunities in its analyses and to find investment opportunities for different asset classes. During 2020, the Fund e.g. internally developed and implemented multi-factor c) The resilience of AP2's strategies in various indices for global equities and corporate bonds, in accordance with the criteria for the EU Paris-Aligned Benchmark. There climate scenarios are more details on page 30. Within Swedish equities, a cleantech portfolio has been established. There are more details on page 29. The Fund has also made its first investments in sustainable infrastructure. There are more details on page 67. AP2 has been investigating how different climate scenarios can be included in the choice of overall strategic asset allocation. It is hoped that by developing the portfolio in line with the Paris Agreement, the Fund can create a climate-resilient portfolio. Risk a) Process for identifying and assessing risks are subject to annual review. climate-related risks

management

b) Process for managing climate-related risks

MISSION AND GOAL

c) Integration of climate-related risks in the overall risk management

The Fund has identified climate risks on the basis of TCFD's categorisation and then made an assessment thereof. These

The Fund's Executive Management, together with the head of the strategy department and the Fund's senior sustainability analyst, are responsible for the strategic sustainability work and for implementation and follow-up. The day-to-day work is handled by the Fund's various departments.

The Fund's risk system includes available climate data that provides for analyses of the Fund's portfolio. For example, the management has access to a tool that makes carbon footprint data available, on a day-to-day basis, for the Fund's internally managed equities.

Metrics and targets

- a) Metrics used to assess climate-related risks and opportunities
- b) Reports concerning greenhouse gases
- c) The targets used by AP2 to manage climate-related risks and opportunities and performance against goals

AP2's ambition is to reduce the portfolio's carbon footprint by influencing companies to reduce their carbon emissions in line with the Paris Agreement. In order to monitor this development, the Fund reports on the development in the PAB-adopted portfolios' carbon footprint against the curve which the PAB framework determines to be in line with the Paris Agreement.

AP2's annual carbon footprint is calculated for portfolio holdings at 31 December, with the help of the latest available carbon data. The carbon footprint data can be found on page 57.

AP2 works continuously to improve risk information at mandate, asset class and fund level. To monitor the financial consequences of the divestment decisions, AP2 has developed a methodology for comparing the returns for MSCI World Developed Markets and MSCI Emerging Markets, excluding and including the divested companies. See also page 33 of the Fund's separate Sustainability Report.

SUSTAINABILITY REPORT

Board signatures

Andra AP-fonden has drawn up a Sustainability Report with inspiration from Part 6, Sections 11-12 of the Swedish Annual Accounts Act. The Sustainability Report is included in this document, which also includes the company's statutory Annual Report for 2020. The Sustainability Report comprises pages 47–55. Andra AP-fonden's statutory Sustainability Report follows the financial year and is published annually. The previous report was published in February 2020. No significant changes took place in the Fund during the reporting period. Andra AP-fonden presents a separate detailed Sustainability Report in accordance with GRI Standards Core that is published on the Fund's website.

Gothenburg, 10 February 2021

Jan Roxendal Lin Lerpold Martina Björkman Nyqvist

Chair Vice Chair

Hanse Ringström Ole Settergren Johnny Capor

Kristina Mårtensson Åsa Erba Stenhammar Christer Käck

Auditor's statement concerning Andra AP-fonden's Sustainability Report

For Andra AP-fonden, company reg. no. 857209-0606

Engagement and responsibility

The Board of Directors is responsible for the Sustainability Report for 2020 and for its presentation in accordance with Andra AP-fonden's principles for sustainability reporting.

Purpose and scope of the audit

Our examination was conducted with guidance from FAR's standard RevR 12 The auditor's opinion regarding the statutory Sustainability Report. This means that our examination of the Sustainability Report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion

A Sustainability Report has been prepared.

Gothenburg, 10 February 2021

Helena Kaiser de Carolis Peter Nilsson

Authorised Public Accountant Authorised Public Accountant

Sustainability data

Climate/Environment

CARBON FOOTPRINT OF THE LISTED EQUITY PORTFOLIO, SCOPE 1 AND 2

Metrics	2020	2019
1. Total carbon emissions (million tCO ₂ e)	1.35	1.74
Sweden	0.08	0.13
Developed markets	0.53	0.66
Emerging markets	0.74	0.95
Change in the portfolio's total carbon emissions from the previous year (%)	-23	
– of which the change related to changes in the portfolio's holdings (% units)	-24	
– of which the change related to changes in the companies' emissions (% units)	1	
2. Relative carbon emissions (tCO ₂ e/MSEK)	8.20	11.52
Sweden	2.28	3.93
Developed markets	6.92	9.34
Emerging markets	14.01	20.33
3. Carbon intensity (tCO₂e/MSEK)	11.50	13.25
Sweden	5.45	7.21
Developed markets	10.21	11.55
Emerging markets	17.38	20.21
4. Portfolio-weighted carbon intensity (TCFD)(tCO₂e/MSEK)	12.85	15.20
Sweden	3.99	5.11
Developed markets	11.74	14.82
Emerging markets	20.35	23.13
Change in the portfolio's carbon intensity (TCFD) from the previous year (%)	-15	
– of which the change related to changes in the portfolio's holdings (% units)	-15	
– of which the change related to changes in the companies' emissions (% units)	0	
Market value of the Fund's portfolio covered by CO ₂ e data (SEK billion)	164	151
Proportion of the share capital for which data is available (%)	96	94

Carbon dioxide measurements as from and including 2020 are based on a broader universe of carbon dioxide data and a refined method of estimating carbon emissions for non-reporting companies. The carbon dioxide measurements for 2019 presented here have been recalculated to facilitate comparison with 2020. Carbon dioxide data reported for previous years is not directly comparable.

- 1. Total carbon emissions. Total of owned share of the portfolio companies' individual carbon emissions.
- 2. Relative carbon emissions. Total of owned share of portfolio companies' individual carbon emissions in relation to the portfolio's market value.
- 3. Carbon intensity, Total of owned share of portfolio companies' individual carbon emissions in relation to the total of owned share of the portfolio companies' turnover.
- 4. Portfolio-weighted carbon intensity (TCFD). The metric adds together the individual carbon intensity of each portfolio company, i.e. a company's carbon emissions in relation to turnover, weighted according to each individual company's share of the portfolio.

The formulae for the above indicators are available on the Fund's website.

CO₃e (carbon dioxide equivalent) is a unit of measurement that makes it possible to compare the climate impact of different greenhouse gases.

ERTIFICATION	OF TIMBERLAND	

	Number of hectares	Proportion, %
Certified timberland in accordance with the FSC and/or PEFC	127 219	96
Timberland in the process of certification in accordance with the FSC and/or PEFC	3 355	3
Land that is sustainably managed in accordance with the FSC and/or PEFC, but that cannot be certified	98	0
Other: Land taken up by e.g. roads, buildings and other non-productive areas, or land that has not yet been planted	1 253	1

The figures in this table are correct at 31 December 2019.

ENVIRONMENTAL DATA

	2020	2019	2018
Internal environmental indicators			
Electricity, kWh	80 000	128 300	126 000
Renewable electricity, %	100	100	100
Copying paper, purchased (A4), kg	0	191	315
Number of printouts	31 000	70 900	107 000
Business travel			
Proportion of train journeys between Gothenburg and Stockholm, %	98	97	88
Greenhouse gas emissions from:			
Rail, domestic, tonnes of CO ₂ e	0	0	0
Air, domestic, tonnes of CO ₂ e	0	1	5
Air, abroad, tonnes of CO ₂ e	2	187	169

SUSTAINABILITY DATA

Corporate governance

NOMINATION COMMITTEES IN WHICH ANDRA AP-FONDEN PARTICIPATED PRIOR TO THE 2020 ANNUAL GENERAL MEETINGS

Company	Proportion of women on the Board, %	Number of newly elected women ¹	Total change compared to previous year ¹
Better Collective	17	0	0
Coor Service Management	43	0	0
Genovis	25	0	-1
IAR Systems	20	0	0
Kambi	40	0	0
K-Fastigheter	17	0	0
Opus Group	17	0	-2
Resurs Holding	50	2	1
Trelleborg	43	0	0

¹ The change concerns comparison with the preceding annual general meeting, and not any extraordinary general meetings between annual general meetings.

VOTING AT ANNUAL GENERAL MEETINGS IN 2016-2020

	2020	2019	2018	2017	2016
Swedish companies					
Voting at annual general meetings (annual and extraordinary) in Sweden, number	110	85	89	51	47
 equivalent to the % share of the Fund's total holdings in Swedish listed equities (market value) 	75	73	81	69	68

Employees

EMPLOYEE STATISTICS

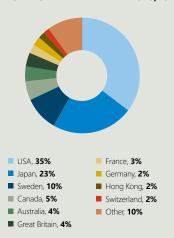
EMI EGTEL STATISTICS	2020	2019
No. of permanent staff	71	71
Female staff, %	34	34
Female staff in executive management, %	33	33
Proportion of women on the Board, %	44	44
Average age, years	46	45
Median age, years	46	45
Personnel turnover, %	0	7.1
Absence due to illness, %	0.8	1.2

BOARD AND SHAREHOLDER PROPOSALS ON WHICH ANDRA AP-FONDEN VOTED IN FOREIGN COMPANIES IN 2020, NUMBER

Area	Board proposal	Shareholder proposal
Auditors, financial reporting, formalities, etc.	1 601	0
Board of Directors	8 804	38
Remuneration issues	1 288	30
Capital structure	526	2
Group structure, agreements, acquisitions, etc.	111	1
Shareholders' rights/governance	92	234
Sustainability	0	107
Other	1	11
Total	12 423	423

2020	2019	2018	2017	2016
1 006	865	816	769	803
38	33	31	40	42
12 846	10 766	10 350	10 768	10 708
29	28	27	28	23
	1 006 38 12 846	1 006 865 38 33 12 846 10 766	1 006 865 816 38 33 31 12 846 10 766 10 350	1 006 865 816 769 38 33 31 40 12 846 10 766 10 350 10 768

VOTING PER MARKET IN 2020, %



Directors' Report

Result and performance 2020

As at 31 December 2020, the Fund's capital stood at SEK 386.2 billion. The SEK 12.8 billion profit for the year is a result of developments in the stock markets, particularly the Swedish, and also reflects a good return on the Fund's investments in private equity funds, Chinese equities and real estate. Andra AP-fonden's net outflow for the year to the national pension system was SEK 7.9 billion.

Fund capital is affected by two factors; profit/loss for the year and net flows within the pension system. In 2020, the Fund's net capital increased by SEK 4 874 (46 522) million, boosted by the profit of SEK 12 776 (53 042) million, but also offset by net outflows of SEK –7 902 (–6 520) million to the pension system. The flows consisted of contributions paid into the system and pension disbursements from it,

amounting to a net of SEK –7 692 (–6 335) million plus costs for administration of the pension system which reduced the Fund's capital by SEK –210 (–185) million. For the twelfth successive year, the net flow from the AP Funds to the pension system was negative. In the past twelve years, Andra AP-fonden has thus paid out approximately SEK 65 billion to cover the ongoing shortfall in the pension system.

THE FUND'S CAPITAL GROWTH IN 2020, SEK MILLION

	2020	2019
Fund capital at beginning of year	381 350	334 828
Pension contributions received	73 874	72 346
Pension disbursements	-81 566	-78 681
Administration payments	-210	-185
Net result for the year	12 776	53 042
Fund capital at year-end	386 224	381 350

ASSET CLASS GROWTH IN THE STRATEGIC PORTFOLIO, EXPOSURE AND RETURN AS AT 31 DEC 2020 AND 31 DEC 2019

	Strategic po	rtfolio, %	Exposu	re, %	Exposed valu	e, SEK billion	Absolute re	eturn, %	Relative re	eturn, %	Active risk e	x-post*, %
Asset class	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Swedish equities	9.0	9.0	9.1	9.0	35.0	34.4	15.9	30.2	3.9	-4.4	3.0	1.9
Developed market equities	21.5	20.5	21.6	19.9	83.3	75.8	-3.7	31.7	-1.1	-0.8	0.7	0.4
Emerging market equities	10.5	11.0	10.6	10.9	40.8	41.4	-5.8	19.9	-0.8	1.0	0.6	0.6
Swedish fixed-income securities	6.5	8.0	7.0	7.8	27.0	29.9	1.4	0.5	0.1	-0.6	0.4	0.5
Foreign government bonds	4.5	4.0	4.3	3.7	16.8	14.1	-1.9	11.9	0.1	-0.4	0.6	0.6
Foreign credits	9.5	9.5	9.1	9.0	35.2	34.3	-2.7	18.0	0.5	0.2	0.7	0.3
Global green bonds	3.0	3.0	2.9	2.8	11.2	10.7	-0.9	11.1	-0.1	-0.9	0.4	0.3
Emerging market fixed-income securities	7.5	7.5	7.2	7.2	27.8	27.6	-7.9	19.3	-0.3	0.3	0.8	0.4
Total listed assets, excl. alternative investments, commission and operating expenses	72.0	72.5	71.8	70.3	277.1	268.3	2.9	17.2	0.0	-0.9	0.5	0.5
Alternative investments	28.0	27.5	28.2	29.7	109.1	113.1	5.3	13.2				
Total Fund capital, excluding commission and operating expenses	100.0	100.0	100.0	100.0	386.2	381.4	3.7	16.1				

* Historical data, 12 months rolling.

Net result for the year

A strong performance in 2020 resulted in a profit of SEK 12.8 billion, which primarily reflects positive developments in the Swedish and Chinese stock markets as well as robust performances among unlisted assets. The Fund's investments gave a total return of 3.7 per cent (excluding costs).

Operating income

Operating income comprises both direct return and net income per asset class as well as foreign-exchange gains/losses less commission expenses. The breakdown of the profit/loss figures in the income statement means that each net income item shows profit/loss excluding the impact of foreign currency exchange rate movements, the translation of profit/loss into Swedish kronor, and the impact of the Fund's currency hedging on profit/loss. Both impacts are instead recognised net in the item Net Income, foreign exchange gains/ losses. Overall, the strengthening of the Swedish krona in 2020 has had a significant negative impact on reported earnings in assets in foreign currencies. This impact has been partly offset by the positive effect of the Fund's currency hedging of parts of the portfolio.

The direct return in the form of net interest income and dividends received stood at SEK 7 170 (9 590) million for the year.

Net income for listed equities, comprising unrealised and realised gains/losses, totalled SEK 14 703 (27 129) million, including expenses for performance-based fees but excluding foreign-exchange effects. Stock market returns, particularly Swedish and Chinese, have produced the reported profit. The Fund's Swedish and Chinese equity portfolios returned a total of 15.9 per cent and 33.2 per cent respectively, compared with a return of –3.7 per cent for the foreign equity portfolio in developed markets and –5.8 per cent for emerging markets.

Net income for unlisted equities totalled SEK 5 754 (6 278) million, primarily attributable to the 5.3 per cent return on the Fund's

traditional real estate portfolio and the 9.1 per cent return on private equity funds, including currency hedging.

Net income for fixed-income assets totalled SEK 3 757 (6 108) million, which reflects a much lower return in 2020 than in the previous year, including the effect of the strengthening of the Swedish krona.

The Fund's trading in derivatives reported a net loss of SEK –2 063 (–932) million, affected by the interest rate component of forward exchange contracts that are accounted for as derivative instruments, and by the development of the Fund's holdings in equity futures.

As a consequence of the strengthening of the Swedish krona in 2020, the Fund's currency exposure had a negative impact on reported earnings from foreign currency assets. The Fund's current hedging of parts of the portfolio in foreign currencies had a positive impact on earnings during the year. Recognised net gains/ losses arising from changes in exchange rates, where both the year's negative exchange rate effects from foreign holdings, SEK –31 474 (13 025) million, and the positive effects of currency hedging, SEK 15 441 (–7 624) million, are recognised together, came to a total of SEK –16 033 (5 401) million. More details of the Fund's currency exposure are given on page 78.

Management expenses in the form of performance-based fees, totalling SEK 293 (148) million, were charged to net income for externally managed assets in 2020. This cost arises when an external portfolio manager generates a return over a certain level, which directly affects the Fund's net income in each asset class in accord-

ance with current accounting principles. Commission expenses pertaining to fixed external management fees of SEK 236 (249) million and custodial expenses of SEK 41 (43) million were charged to operating income.

The Fund's total expenses

The Fund's total expenses include in-house costs in the form of operating expenses, fixed external portfolio management expenses and custodial expenses. Variable expenses relating to performancebased contracts and asset management fee payments are charged to net income for each asset class, as presented in Notes 3 and 4 on pages 86–87. The Fund's operating expenses and commission expenses, expressed as the management expense ratio, were 0.14 (0.15) per cent for 2020. The level of costs is a direct effect of the Fund's investment strategy, according to which external managers are hired for asset classes and markets that are believed to offer the prospect of solid returns and for which the Fund lacks the necessary in-house resources. Despite the fact that, over the years, the portfolio has become increasingly complex with different asset classes in a growing number of markets throughout the world, the management expense ratio has remained relatively constant. The internalisation process implemented between 2012 and 2015 has enabled greater diversification up to today's strategic portfolio. A global cost-efficiency comparison between Andra AP-fonden and other pension funds shows that Andra AP-fonden is highly costefficient. This is commented on in more detail on pages 79-80.

Operating expenses

Operating expenses totalled SEK 235 (240) million. Recognised in relation to average Fund capital over the twelve months, this corresponds to a slightly lower cost level (management expense ratio excluding commission expenses) of 0.06 (0.07) per cent.

External management expenses

Asset management costs are largely dictated by the size of the Fund's capital, percentage of assets under external management, level of active risk-taking and choice of asset class. During 2020, the approach for Fund capital under external management was mainly active and, by year-end, SEK 63 (72) billion was being managed under external mandates, including unlisted assets. This is equivalent to 16 (19) per cent of the Fund's total capital. The cost for external management of market-listed assets partly comprises a fixed element and, for certain services, a performance-based element. In 2020, the fixed cost was SEK 236 (249) million and the variable performance-based element was SEK 293 (148) million. The fixed external management fees have fallen this year due to a winding-up of some external mandates at the end of the year. In relation to assets under management, however, commission expenses are relatively unchanged compared with the level achieved through the internalisation process in 2012–2015, although the winding-up of some external mandates is expected to result in a significant reduction of costs in 2021.

Custodial expenses

Andra AP-fonden carries out most of its asset management activities internally. This drives the level of custodial expenses. The expenses are also affected by the type of asset deposited with the custodial bank. Assets exposed to emerging markets, for example, are relatively expensive to place on deposit. Custodial expenses were SEK 41 (43) million in 2020.

Brokerage commission

A brokerage commission is paid on the purchase and sale of shares and participations. When buying and selling other asset classes, the transaction cost is limited strictly to the difference between the buy and sell rates, known as the 'spread'. To allow comparison of the asset classes, brokerage commission is reported as a deductible item in Net Income for listed equities and participations. See Note 2 on page 86. Brokerage commission paid in 2020 totalled SEK 98 (68)

million. Commission paid to the Fund's external managers accounts for 12 (12) per cent of the brokerage costs, and the Fund's in-house portfolio management organisation accounts for the remainder. Costs amounted to 0.05 (0.06) per cent of the total trading volume. The following five counterparts received commissions equivalent to 47 per cent of total commission payments (in alphabetical order): Danske Bank, D. Carnegie & CO, Goldman Sachs, JP Morgan and UBS AG.

CONTRIBUTION TO RELATIVE RETURN, %

Asset class	2020	2019
Swedish equities	0.57	-0.47
Developed market equities	-0.35	-0.20
Emerging market equities	-0.13	0.12
Swedish fixed-income securities	0.00	-0.09
Foreign government bonds	0.01	-0.02
Foreign credits	0.08	0.03
Global green bonds	0.00	-0.01
Emerging market fixed-income securities	-0.02	0.03
Absolute return	0.05	-0.24
Total market-listed assets excl. alternative investments and implementation effects	0.21	-0.85
Implementation effects*	-0.16	-0.05
Total market-listed assets excl. alternative investments and incl. implementation effects	0.05	-0.90

^{*} Result effects to maintain exposure to strategic portfolio.

CONTRIBUTION TO ABSOLUTE RETURN, %

Asset class	2020	2019
Swedish equities	1.5	2.6
Developed market equities	-0.8	6.0
Emerging market equities	-0.7	2.1
Swedish fixed-income securities	0.1	0.1
Foreign government bonds	0.0	0.5
Foreign credits	-0.2	1.9
Global green bonds	0.0	0.0
Emerging market fixed-income securities	-0.6	1.4
Absolute return	0.0	-0.2
Semi-strategic allocation	0.4	_
Overlay	0.1	-0.1
Currency hedging listed portfolio	2.4	-2.0
Alternative investments	0.0	5.0
Currency hedging alternative investments	1.5	-1.1
Total assets, excl. commission expenses and operating expenses*	3.7	16.1

^{*} Including currency hedging.

Portfolio return

The total portfolio return in 2020 was 3.7 per cent, excluding commission expenses and operating expenses but including performance-based fees.

Listed equities quickly recovered after the sharp stock market downturn brought on by the COVID-19 outbreak. From a full-year perspective, the Swedish krona has strengthened relatively well despite high levels of volatility. This reduces the return on foreign assets but can be offset by currency hedging programmes. Foreign equities in developed markets noted a return of –3.7 per cent in Swedish kronor, excluding currency hedging effects. Swedish equities gave a return of 15.9 per cent and emerging market equities, excluding Chinese equities, which are reported under alternative investments, noted a return of –5.8 per cent.

Swedish bonds generated a return of 1.4 per cent. The returns on foreign government bonds and credits were -1.9 per cent and -2.7 per cent respectively, in Swedish kronor excluding currency hedging. Global green bonds gave a return of -0.9 per cent, also in Swedish kronor and excluding currency hedging effects. These foreign bond portfolios are fully hedged, however, which is why the

effect of the stronger Swedish krona is offset by a positive return in the hedging positions. Bonds in emerging markets decreased in value by –7.9 per cent in Swedish kronor. The asset class is partly hedged against currency risk.

Alternative investments, i.e. real estate, sustainable infrastructure, private equity funds, alternative credits, alternative risk premiums, Chinese government bonds and Chinese Series A equities, generated a return of 5.3 per cent, including currency hedging. The listed portfolio return was 2.9 per cent, including currency hedging, which generated a performance contribution of 3.9 per cent.

The contribution made by the various asset classes to the total profit/loss depends on their return and on the relative percentage of portfolio value they represented during the year. Equities in developed markets, which represent a large share of the portfolio, generated a performance contribution of –0.8 per cent. Swedish equities contributed 1.5 per cent and emerging market equities –0.7 per cent. Swedish bonds generated a return of 0.1 per cent. Foreign government bonds and global green bonds had a marginal negative impact on total returns. Foreign credit bonds contributed –0.2

per cent and emerging market bonds negatively impacted performance by –0.6 per cent. These contributions are recognised exclusive of the effects of currency hedging. Alternative investments contributed 1.5 per cent, including currency hedging.

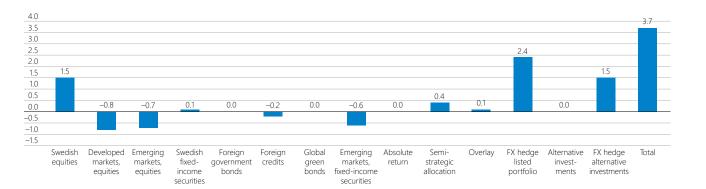
The AP Funds have a 40 per cent statutory limit for currency exposure. Andra AP-fonden's currency hedging policy aims to reduce the risk in the portfolio. The Fund therefore implements a systematic hedging programme for the currencies of developed countries, with a view to minimising variation in the value of the portfolio in the long term. The strengthening of the Swedish krona gave a positive 2.4 per cent contribution from the currency hedging for the listed portfolio. The Fund does not hedge emerging market currencies.

The Fund's real-estate portfolio, excluding timberland and farmland real estate, returned 5.3 per cent. The portfolio of timberland and farmland real estate returned –3.7 per cent. The return on private equity investments was 9.1 per cent. Alternative risk premiums noted a return of –14.6 per cent as a result of negative impacts on the Fund's holding of dividend futures. The alternative credit portfolio returned –1.0 per cent. These returns are recognised inclusive of currency hedging.

The Fund invests in equities in the domestic Chinese market, so-called A shares. Since opportunities to add or withdraw assets from this portfolio are subject to certain administrative constraints, it has been classified under alternative investments. The return on these was the Fund's best asset class, with an annual return of 33.2 per cent. As they did last year, the Fund's active portfolio managers helped to improve the return considerably. Chinese government bonds, which like the equities are classified as alternative investments, returned –4.1 per cent. The Chinese assets are not hedged.

Andra AP-fonden has generated an annual average return of 7.3 and 7.7 per cent over the past five and ten years respectively. Minus inflation, this is equivalent to an annual real return of 5.7 per cent over five years and 6.6 per cent over ten years. The portfolio has thus exceeded Andra AP-fonden's expected return of 4.5 per cent (including costs) per year over both the periods of time.

CONTRIBUTION TO TOTAL PORTFOLIO, ABSOLUTE RETURN IN 2020, EXCLUDING COSTS, %



Relative growth of the listed portfolio

The Fund's portfolio of market-listed securities comprises Swedish and foreign equities, Swedish and foreign fixed-income assets, tactical allocation and currency management. In 2020, the Fund moved some of the more long-term tactical trading positions to a separate semi-strategic allocation portfolio. During the year, the listed portfolio generated a return of 2.9 per cent, in Swedish kronor including currency hedging. Total relative return, i.e. active return including implementation effects (costs arising in connection with rebalancing and transactions that are not attributable to active management) was 5 base points. The effects of implementation reduced the relative return by 16 base points. For administrative reasons, this calculation does not take into account active return from the Chinese equity mandates. The semi-strategic portfolio contributed 0.4 per cent to the Fund's total return. The relative return, the semi-strategic decisions and the Chinese equity mandates generated a combined return of 0.72 per cent this year.

In the last five years, the Fund's active return has averaged -0.19 per cent per year. Over the same period, the implementation effects have averaged -0.08 per cent. The average relative return has thus been -0.27 per cent. In the last five years, the relative return plus semi-strategic positions and active Chinese return have averaged 0.17 per cent and the corresponding active return, i.e. excluding implementation effects, has averaged 0.25 per cent.

Swedish equities

The Swedish equity portfolio outperformed the benchmark index by 3.9 per cent. The portfolio of fundamentally managed equities generated a return of 2.1 per cent more than its weighted index. The small cap portfolio outperformed the benchmark index by 13.8 per cent. The Fund manages all Swedish equities in-house.

Foreign equities

The Fund's management of foreign equities in developed markets delivered a negative active result of -1.1 per cent. The active result for emerging-market equities was -0.8 per cent. Chinese A-shares are managed under large-deviation mandates, and the active return for the year was 10.0 per cent.

Swedish and foreign fixed-income assets

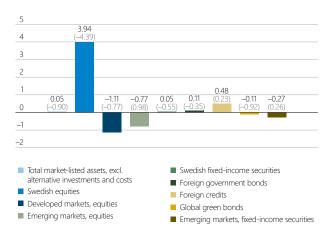
The Swedish fixed-income management's active return was 5 base points. The portfolio of foreign government securities managed in-house had an active return of 11 base points. The in-house management of credit bonds outperformed the benchmark index by 0.5 per cent.

The management of emerging-market bonds, issued in US dollars, had an active return of –1.1 per cent during the year. The management of emerging-market bonds in local currency outperformed the benchmark index by 0.3 per cent.

Other contributions

The Fund's in-house tactical allocation activities delivered a positive result of SEK 111 million. The semi-strategic portfolio that has been positioned for a strengthening of the krona exchange rate gave a return of SEK 1 531 million. Equity loans and currency trading contributed SEK 19 million.

RELATIVE RETURN PER ASSET CLASS IN 2020 (2019), %



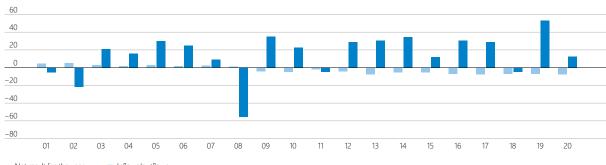
RELATIVE GROWTH OF THE LISTED PORTFOLIO

OVERVIEW 10 YEARS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Fund capital, SEK billion	386.2	381.3	334.8	345.9	324.5	300.6	293.9	264.7	241.5	216.6
Net outflows to national pension system, SEK billion	-7.9	-6.5	-6.8	-7.4	-6.6	-4.9	-5.1	-6.9	-3.8	-1.2
Net result for the year, SEK billion	12.8	53.0	-4.3	28.8	30.5	11.7	34.3	30.1	28.6	-4.6
Return on total portfolio before commission expenses and operating expenses, %	3.7	16.1	-1.2	9.1	10.5	4.1	13.3	12.8	13.5	-1.9
Return on total portfolio after expenses, %	3.5	15.9	-1.3	9.0	10.3	4.0	13.1	12.7	13.3	-2.1
Relative return on listed assets, excluding alternative investments, commission and operating expenses, %1	0.0	-0.9	-0.2	0.1	-0.4	0.9	0.5	0.4	1.1	-0.3
Active risk ex-post, %	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Currency exposure, %	34	34	32	33	31	30	24	23	20	16
Management expense ratio excl. commission expenses, %	0.06	0.07	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.07
Management expense ratio incl. commission expenses, %	0.14	0.15	0.14	0.15	0.15	0.18	0.17	0.17	0.16	0.17
Annualised return after operating expenses 5.0 years, %	7.3	7.4	6.9	9.8	10.6	8.0	9.4	10.8	2.4	0.6
Annualised return after operating expenses 10.0 years, %	7.7	8.4	8.8	6.0	5.5	5.7	7.1	7.0	7.4	4.3

¹ Relative return refers to the difference in return between a portfolio and its benchmark or reference index.

THE FUND'S PERFORMANCE AND FLOWS 2001–2020, SEK BILLION



the market has experienced two profound crises. First came the dot-com bubble, coinciding with the launch of the Fund, followed by the financial crisis, which peaked in 2008. During 2011, the financial markets were severely affected by debt crises in different parts of the world. Since then, the stock markets have sustained a healthy growth rate for several years, except in 2018.

Since the Fund was established,

■ Net result for the year ■ Inflows/outflows

Alternative investments

Within the alternative investments asset class, Andra AP-fonden has gathered investments in unlisted real estate (including timberland and farmland real estate), private equity funds, alternative risk premiums, alternative credits, sustainable infrastructure, investments in Chinese government bonds and equity investments in the domestic Chinese stock market.

During the year, alternative investments as a whole generated a return of 0.3 per cent (5.3 per cent with currency hedging earnings included).

With the exception of private equity funds and sustainable infrastructure whose holdings are hedged in the same way as the listed equity portfolio, alternative investments in developed markets are hedged in whole, while assets in emerging countries are not hedged.

Private equity funds

In 2020, the total investment commitments of the private equity portfolio, excluding liquidated investments, amounted to SEK 49.6 billion.

Since the start in 2001, SEK 39.4 billion (including management fees) has been invested, of which SEK 36.3 billion has been repaid. During 2020, SEK 4.9 billion has been invested and SEK 4.3 billion has been repaid, resulting in a net outflow of SEK 0.6 billion.

Andra AP-fonden carried out 21 investments during the year. The total commitment for these was equivalent to SEK 8.5 billion. New investments include allocations to Andreessen Horowitz, Ares Management, Clayton, Dubilier & Rice, CVC Capital Partners, DCP Partners, DCVC, EQT, Francisco Partners, H.I.G. Capital, Khosla Ventures, New Mountain Capital, TCV and Thoma Bravo.

As in previous years, the portfolio was marked throughout by a high level of activity, with the funds carrying out multiple investments and disposals, while the number of IPOs fell slightly. The managers worked intensively with the companies to address the

effects of the COVID-19 pandemic by adjusting growth outlooks, assessing financing and staffing needs and in other ways. Only a few companies in the portfolio had liquidity needs. An intense effort was launched early on to evaluate and minimise the impacts of the pandemic where managers, in individual cases, considered that a slightly longer holding period was required. That said, several companies have been positively impacted and the portfolio's increase in value has, on the whole, been balanced during the year. It is generally felt that managers responded swiftly and have been extremely transparent with frequent updates to investors.

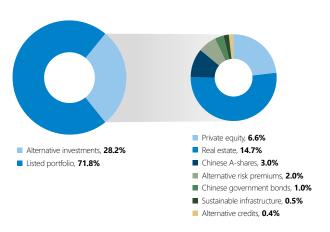
The exposure to North America was 52 per cent, Europe 22 per cent, Asia 25 per cent and the rest of the world 2 per cent. The portfolio is also diversified per sector, with information technology accounting for 31 per cent, consumer discretionary for 17 per cent and healthcare for 16 per cent.

Per investment style, buyout and growth funds have the highest share at 62 per cent, followed by venture funds at 26 per cent, and special situation and problem companies at 11 per cent.

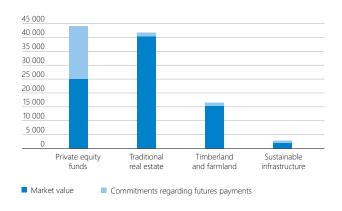
In 2020, the return on private equity funds was 4.1 per cent (9.1 per cent including currency hedging). The portfolio's market value was SEK 24.9 billion at the end of the year.

The portfolio of private equity investments has continued to generate a better return than the listed market. Management fees paid for unlisted assets are recognised as a part of the acquisition value of the assets. For more details, see the Fund's accounting and valuation principles on pages 84–85.

ALTERNATIVE INVESTMENTS' SHARE OF TOTAL PORTFOLIO AND ITS CONSTITUENT ELEMENTS, %



UNLISTED INVESTMENTS BROKEN DOWN BY MARKET VALUE AND CONTINUING COMMITMENTS, SEK MILLION



ALTERNATIVE INVESTMENTS

Traditional real estate

The Fund's unlisted real-estate holdings today consist mainly of a 25 per cent stake in Vasakronan Holding AB, a 41 per cent stake in US Office Holdings and a 25 per cent stake in Cityhold Office Partnership (via Chaptwo S.à.r.l). All investments focus on high-quality, traditional real estate, centrally located in real-estate markets with good liquidity. In addition, the portfolio has been expanded to include investments in real-estate funds, four in Asia, one in Latin America and one in Poland. In 2018, Andra AP-fonden decided on a framework for side investments for Gaw Capital. The side investments provide opportunities for an increased stake in investments that are carried out in the Asian markets and are considered to be interesting from both return and diversification points of view.

By investing in real estate, the Fund creates a solid, long-term direct return on investment and risk spread in the total portfolio. Vasakronan is owned jointly by the First, Second, Third and Fourth AP Funds. It is Sweden's largest real-estate company, with a concen-

trated portfolio of attractively-located real-estate holdings in the Stockholm, Gothenburg, Öresund and Uppsala areas.

Cityhold Office Partnership was formed together with Första AP-fonden and the US pension fund TIAA in 2015. The company was created to become a leading platform for investments in Europe. The real-estate portfolio is valued at approximately EUR 2.9 billion and comprises high-quality office buildings in attractive locations in London, Paris, Munich, Amsterdam and Hamburg. Nuveen Real Estate manages the administration of the company and provides investment and management services.

The US real estate companies US Office Holdings and US Core Office I and II are owned jointly by Andra AP-fonden, the national South Korean pension fund NPS and the Tishman Speyer real-estate company. The companies own centrally-located office real estate both directly and via joint ownership. The market value of Andra AP-fonden's real estate holdings is approximately USD 2.3 billion.

Since 2013, Andra AP-fonden has also decided to invest in six real-estate funds in emerging markets:

- Gateway Real Estate Fund IV, V and VI, which invest in real estate in East Asia, particularly China.
- Hines Poland Sustainability Income Fund, which invests in office and logistics real estate in Warsaw and Krakow.
- GTIS Brazil Real Estate Fund III, which invests in real estate in Brazil with a focus on São Paulo and Rio de Janeiro.
- Centurion II, which invests in new production of logistics real estate in China, mainly in Shanghai and Beijing.

The return on Andra AP-fonden's investments in traditional real estate during the year was 0.9 per cent (5.3 per cent including currency hedging).

Sustainable infrastructure

After a period of analysis, Andra AP-fonden set up a sustainable infrastructure portfolio at year-end 2019. Investments are to be made in infrastructure companies/platforms and funds whose business activities are related to sustainable development in line with the Paris Agreement and without compromising return expectations. Generation of renewable energy is to be the main investment focus, although the portfolio may also include investments in battery production plants, power line networks, expansion of hydrogen infrastructure, and so on.

Three investments were made in 2020:

Pattern Energy – one of the world's largest independent wind power development companies. The investment was made jointly with Canada Pension Plan and others.

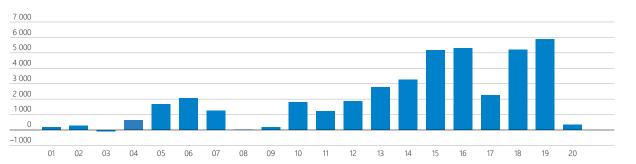
Generate Capital – a company with rapid growth that owns and operates small-scale distributed sustainable infrastructure primarily in the energy sector (e.g. rooftop solar systems for schools).

Copenhagen Infrastructure Partners – one of the largest global funds for development and operation of wind farms with a focus on offshore wind.

The return on Andra AP-fonden's investments in sustainable infrastructure during the year was 21.2 per cent (23.4 per cent including currency hedging).

GROWTH IN REAL-ESTATE PORTFOLIO

Annual earnings from the Fund's holdings in traditional real-estate companies since start (excl. currency hedging), SEK million



ALTERNATIVE INVESTMENTS

Timberland and farmland

In 2010, Andra AP-fonden made its first investments in timberland and farmland real estate as part of its strategy to diversify the overall portfolio. With growing demand for forest and agricultural products driven by increasing urbanisation, improvements in welfare and an expanding global population, these investments are considered to generate a stable return. Both asset classes are also deemed to be relatively insensitive in the long-term to cyclical fluctuations, added to the fact that covariance with other asset classes – such as equities – is considered to be low.

The timberland and farmland real estate portfolio currently consists of twelve different funds/companies. For Andra AP-fonden, it is important to choose fund managers that subscribe to the same values of long-term, responsible and sustainable investment. The Fund has decided to invest in farmland real estate through joint ventures with other investors, a form that suits Andra AP-fonden's long-term approach to these investments. The farmland real estates are mainly located in Australia, Brazil, Poland and the USA. They are primarily engaged in the production of grain on large-scale, high-quality agricultural land in countries with clear legal structures, where agricultural production is efficient and the countries are net exporters of agricultural products.

Andra AP-fonden's timberland real estates are located mainly in the USA and Australia. They focus on conventional forestry systems for traditional pulpwood and saw timber, with a careful balance between softwood and hardwood. The majority of these investments are structured as funds. To complement these investments, the Fund has also invested in a company for timberland real estate in Latin America and Europe, where production is geared partly towards biomass.

Funds and companies in which Andra AP-fonden has invested are clearly focused on sustainability, responsible governance and management of the real estate and on certification of their operations (SFI, FSC and AFS). More details of the sustainability activities within these areas are presented on pages 23–31 of the Fund's Sustainability Report, www.ap2.se

In 2020, the Fund's return on investments in farmland was -14.1 per cent (-6.5 per cent including currency hedging). The return on investments in timberland was -6.9 per cent (1.8 per cent including currency hedging).

The portfolio is still impacted by negative effects of currency fluctuations, primarily from the long-term weakening of the Brazilian real.

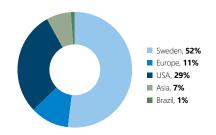
Alternative credits

Up until the end of 2020, Andra AP-fonden has allocated two per cent of its strategic portfolio to investments in credit opportunities that have arisen as a result of the revised regulations and the restructuring of the financial markets, introduced in the wake of the global financial crisis. One example is that the banks have transferred their lending from small and medium enterprises to the very largest companies.

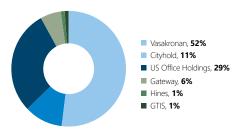
Andra AP-fonden's investment mission is long-term, providing the stability needed to benefit from prevailing market conditions. The full value created can only be realised when securities and credits mature, requiring the investments to be retained for their full term.

The average term for the credits that dominate the investment selection in the credit market segment (loans to companies) is shorter than for the more common bonds that institutional investors have great exposure to these days. Shorter terms, and not uncommonly FRNs (floating rate notes), mean there is less sensitivity to potential hikes in interest rates from the currently extremely low levels.

GEOGRAPHIC MARKETS' SHARE OF THE TRADITIONAL REAL-ESTATE PORTFOLIO. %



INVESTMENTS' SHARE OF THE TRADITIONAL REAL-ESTATE PORTFOLIO, %



ALTERNATIVE INVESTMENTS

Since the portfolio was established, Andra AP-fonden has conducted ongoing investment in corporate credits by utilising external fund managers that apply broad and in-depth credit analyses. The return for 2020 was –8.7 per cent (–1.0 per cent including currency hedging).

The alternative credit portfolio was wound up with effect from 31 December 2020. The portfolio has generated a return on a par with expectations since it was established. The type of credit exposure that alternative credits have contributed will now come through unlisted credits with similar characteristics to those obtained in alternative credits, but with an illiquidity premium that can create the potential for enhanced return.

The unlisted credit portfolio was set up at the turn of the year 2020/2021 and will be built up gradually over the coming years.

Alternative risk premiums

The aim with alternative risk premiums is for the portfolio to help improve the diversification and generate higher risk-adjusted return, since the portfolio is built to be less dependent on traditional stock market risk. The strategies that have been adopted by the portfolio are premiums for reinsuring insurance companies, premiums associated with the market for corporate aquisition and convertibles, and strategies focused on the foreign exchange market and the market for future dividends from corporate profits. The return for 2020 was –20.5 per cent (–14.6 per cent including currency hedging).

The strategy with the greatest negative contribution in 2020, the market for future dividends, is being wound up along with the Fund's currency strategies. Both the mandates have been managed internally. The mandate that was managed externally generated a positive return in 2020. With effect from year-end 2020, the portfolio comprises just three strategies: i) premiums to reinsure insurance companies, ii) premiums associated with the market for corporate aquisition and iii) premiums associated with convertibles.

Chinese Series A-shares

Andra AP-fonden has been investing in the market for Chinese A-shares since 2013. In the strategic portfolio, 2.5 per cent of the capital has been allocated to Chinese A-shares. The three external investment managers for the portfolio are: APS, Cephei and UBS.

An exposure to the structural trends affecting the market is sought and the management is conducted with relatively high deviation from the Chinese benchmark index, MSCI China A¹. The index is considered ineffective and is marked by high volatility, which is why a high deviation in relative terms can be expected. In 2020, the benchmark index rose 23.3 per cent in Swedish kronor. The Fund's managers continued to show positive relative returns against the benchmark index. The absolute return for Andra AP-fonden's managers was 33.2 per cent for 2020.

Chinese bonds

Since the autumn of 2017, the Fund has had an allocation for Chinese government bonds. At an initial stage, the portfolio is managed passively.

The investment strategy for Chinese government bonds aims to replicate the return in the benchmark index JP Morgan GBI-EM Broad China². This is done by matching the interest rate exposure through quantitative methods for portfolio optimisation. The relative return on Chinese government bonds was in line with the benchmark index, while the absolute return was –4.1 per cent.

Information has been obtained from sources believed to be reliable, but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used or distributed without the prior written approval of J.P. Morgan. Copyright 201[7], J.P. Morgan Chase & Co. All rights reserved.



¹ Adjusted index.

Internal governance and control

Internal governance and control can be defined as the process whereby the Fund's Board of Directors, Executive Management and other personnel work together and, with a reasonable degree of assurance, make certain that the goals of the business are achieved.

 Integrity and culture Independent and monitoring Control environment • Responsibilities and authorities Duality · Leadership and values • Set relevant operational and return targets Define risk framework Risk assessment • Identify, analyse and manage risks · Identify and manage change Identify and create control activities Control activities • Identify and create general IT controls · Spread through policies and guidelines Use relevant information Information and Structures and procedures for internal communication and external communication Conduct regular and separate evaluations Monitoring and · Identify, evaluate and communicate evaluation non-conformances

Andra AP-fonden's overall business objective is to minimise the negative effect on pensions that would derive from applying the 'brake'. A good internal control system should support the achievement of this overall objective, as well as reliable financial reporting and regulatory compliance.

It is essential for a business that carries out asset management activities to focus on financial risks, and risk-taking is a natural and necessary way to achieve the target return. A well-structured internal governance and control system for an asset management organisation helps it achieve its objectives by taking expected financial risks, dealing with unwanted risks and preventing loss of resources.

As a government pension fund, Andra AP-fonden sets high standards for its internal governance and control practices, a fact that has laid the foundation for a strong control and risk mindset right across the organisation. In the absence of a mandatory set of external regulations, the Fund has chosen to base the structure of its internal governance and control on the components set out in Regulation (2007:603) on internal governance and control, which in turn is based on the framework of the COSO (Committee of Sponsoring Organizations of the Treadway Commission).

The structure for Andra AP-fonden's internal governance and control is built around five components with underlying principles, as illustrated on the left.

Responsibility for internal governance and control

The Board of Directors has the ultimate responsibility for the Fund's internal control activities and its control environment. Its role is to

guide and give the control environment the required attention. In 2016, the Board thus decided to introduce an external independent audit function with annual internal audit services decided by the Board. The joint procurement of new internal audit services with the First, Third and Fourth AP Funds was completed in 2020 and the Funds now use the same internal audit provider.

The CEO has the overall operating responsibility for the Fund's internal control and, in that role, determines the decisive internal culture of risk awareness, integrity, ethics and morality that provide the foundation for a strong and positive control environment. The responsibility for the Fund's internal control in its day-to-day activities lies to a great extent with all of the organisation's employees.

The Fund has a separate internal committee (ISK Committee) that coordinates, monitors and develops internal governance and control practices. The Committee is made up of representatives from Compliance, Risk and Finance and produces an annual written assessment of the status of the Fund's internal governance and control.

Some key factors in the control environment Culture

An organisation's culture aims to create structure and is built up by expertise, organisational structure with clear distribution of responsibilities and authorities, integrity, ethics and morals. Andra AP-fonden's culture is notable for encouraging personal responsibility and individuality within the framework of a strong team spirit.

INTERNAL GOVERNANCE AND CONTROL

The values on which the Fund's culture is built are long-term value creation, responsible, respect and continuous improvement. The valuation process is supported by continuous training in regulatory compliance and ethical issues.

Organisation

The Fund's system and organisation both support the "four eyes principle" for all transactions and there is a high degree of automation in the daily recurring processes. The CRO (Chief Risk Officer) and the Head of Compliance report directly to the Board which guarantees objectivity and allows for a healthy questioning.

To ensure that the Fund's risk management and control environment are secured in a structured manner, the Fund works according to the principle of the "Three lines of defence". The Three lines of defence principle aims to create an appropriate distinction of responsibilities between asset management (first line), risk and regulatory compliance (second line) and internal audit (third line). Other organisational entities' controls are conducted in the first and second lines of defence.

The Fund's three lines of defence are illustrated below.

Monitoring and reporting

The organisation's structured monitoring and reporting system, with regular monitoring measures and separate evaluations, provides the Board and management with tools to assure the quality of the Fund's internal control.

In particular, regular monitoring measures include the Fund's internal incident log, risk log and operational risk programme. The Fund's internal governance and control are also evaluated within the framework for the Fund's process development activities. More details on page 74.

Separate evaluations are conducted by internal and external parties. The Government's annual appraisal examines the value of the Fund's strategic decisions and active management.

The Fund's internal governance and control in a number of processes are also subject to annual scrutiny as part of the external audit work. In addition, the Fund's Compliance Department presents the Board annually with a report on identified areas of regulation with associated risks, and any regulatory violations. The reviews carried out by the internal auditors, which are reported to the Board, have different focus areas from year to year and these may have a bearing on the evaluation of the Fund's internal governance and control. More details of this year's internal audit are presented in the Fund Management Report.

The Board of Directors

CEO

1st line of defence

Asset management

Responsibilities

Make sure the business achieves its objectives within the framework for given risk appetite.

Duties

Full responsibility and ownership of risk-taking, internal control and monitoring.

Reportina

Report the risk situation to the Risk Committee and the second line of defence.

2nd line of defence

Risk and regulatory compliance

Responsibilities

Facilitate the risk activities of the organisation, monitor and challenge the results of the organisation's work and assess regulatory compliance.

Duties

Set standards and methods, support risk evaluation and aggregate and analyse outcomes.

Reporting

Report the organisation's aggregate risk exposure to management and the Board.

3rd line of defence

Internal audit

Responsibilities

Independently evaluate the organisation's internal governance and control, and improve efficiencies in the Fund's internal processes.

Duties

Evaluate processes and compliance with regulations, frameworks and models from an internal control perspective.

Reporting

Report identified observations and improvement proposals to the Board.

OVERVIEW MACRO

Portfolio risk 2020

The Swedish Parliament has formulated clear guiding principles as to how the AP Funds shall interpret their mandate as fund managers. The AP Funds shall adopt financial risk in an effective manner with a focus on future pensions. Apart from a few constraints, the Funds have been awarded considerable freedom in selecting appropriate risk and investment strategies, independent of one another. The chosen strategy should be neutral with regard to different generations, and a readiness to pay ongoing pensions should be taken into account.

The starting point for Andra AP-fonden's investment strategy and financial risk is that the AP Funds are only able to influence future pensions to the extent that their portfolio management activities impact on the pension system's automatic balancing mechanism. The Board of Directors has therefore concretised the Fund's goal for its asset management activities so that the consequences for future pensions of activating the automatic balancing mechanism are minimised. It is the primary risk that affects the shaping of the investment strategy rather than the selected portfolio's risk profile. By far the greatest financial risk that Andra AP-fonden chooses to take in its portfolio management operations comes from its long-term exposure to financially motivated risk premiums, as expressed by the strategic portfolio.

The financial level of risk is thus directly linked to the Fund's assessment of the growth of the total pension system over the coming decades. This is determined largely by demography, immigration, employment levels, economic growth and other factors beyond the control of the Fund. The financial risk-taking is also governed by the Fund's assessment of the financial markets' long-term prospects for generating returns. A key starting point for the choice of strategy is that the AP Funds are relatively limited in size compared with the entire Swedish national pension system. This means that the Funds need to take a considerable financial risk.

The long-term allocation of capital and spread of risk that Andra AP-fonden believes will minimise the effects on future pensions has a relatively high percentage of greater-risk assets. This means that the portfolio value is expected to show, from time to time, greater variation than if the allocation of assets had been more defensive. A guiding principle for the development of Andra AP-fonden's long-term investment strategy is to diversify the risk-taking in the portfolios as much as possible, without compromising on the requirement for a high return. By doing so, the Fund aims to minimise the risk of negative pension growth over the long term and limit short-term portfolio risk as far as possible.

There are various ways to describe the long-term orientation the Fund chooses for its portfolio. It can be described as allocation of equity across various assets and strategies. It can also be described in terms of anticipated future returns. A third description is the portfolio's expected risk profile, which is key to achieving the overall goal to mitigate the risk of lower pensions in the future, which is the mission that the AP Funds have been tasked with.

Risk control

The Fund's risk-taking is controlled through three framework levels. Andra AP-fonden's risk policy, which is approved by the Board of Directors, sets the parameters for the Fund's overall exposure to risk. The CEO's document 'Guidelines for Investment' contains more detailed instructions for managing and monitoring risks. For the individual management mandates, the parameters for risk-taking are defined in an Investment Guideline.

The starting point for Andra AP-fonden's risk-taking is the annual ALM study. This is based on a number of assumptions about long-term market growth and risk levels for various asset classes, and is a key tool in designing the strategic portfolio.

The Fund's risk function

Day-to-day risk management comprises three independent yet interrelated parts.

Risk budgeting

The Fund's Board of Directors has set a target for the Fund's managers to create 0.5 per cent relative return, over and above the return of the strategic portfolio. The Board has stated that no more than 3 per cent active risk (tracking error) may be used to generate this return. The purpose of the risk budget is to allocate excess return targets and limits for the active risk-taking between the Fund's portfolio management teams, to achieve the most effective risk utilisation possible. In other words, the Fund's information ratio should be maximised. The idea of the risk budget is an allocation of

RISK MANAGEMENT

targets and resources to the respective management mandates. Each mandate's target and risk framework are described in its Investment Guideline. The risk budget is drawn up annually. Senior portfolio managers present their proposal to the Fund's Executive Management for approval.

Compliance

Compliance is responsible for ensuring that legal and ethical aspects are managed correctly and in compliance with current regulations. Its main duty is to communicate information throughout the organisation about the regulations that, in a broad sense, apply to Andra AP-fonden. This can be done in different ways, not least by ensuring that in-house rules, policies and guidelines are established

and embedded in the organisation. External rules include laws and regulations that concern the AP Funds, as well as other regulations for the capital market, for example flagging. Internal rules govern the employees' private securities transactions and how external fund managers observe the terms of their contracts.

Risk Management

Risk Management is responsible for monitoring and analysing the Fund's financial and operational risks. This function is operationally separate from the asset management organisation, ensuring complete independence. It is also responsible for developing guidelines and risk models, and providing advice and support to the Fund's Executive Management and portfolio management teams.

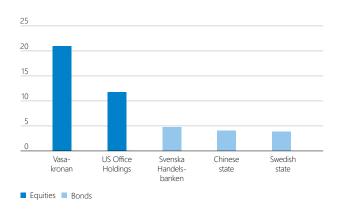
The Fund's risks

The most significant risks to which the Fund may be exposed can be divided into financial and operational risks. The financial risks primarily comprise market risk, credit risk and liquidity risk.

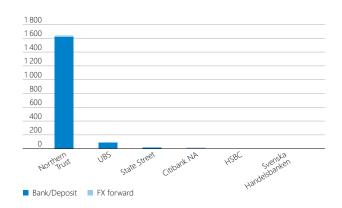
Market risk

Market risk refers to the risk that fair value or future cash flows from a financial instrument will vary due to changes in market rates. In the day-to-day portfolio management process, market risk is measured in absolute terms and relative to the benchmark portfolio. The market risks most relevant to Andra AP-fonden are share price risk, interest rate risk and exchange rate risk. The Fund analyses and monitors the market risk at total fund level, by asset class and by

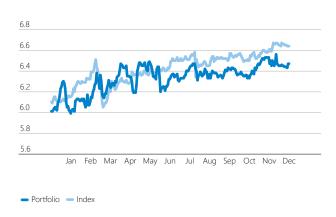
EXPOSURE TO ISSUERS, SEK BILLION



COUNTERPARTY RISK, SEK MILLION



DURATION 2020, YEAR



RISK MANAGEMENT

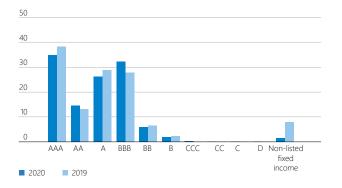
mandate. In this process, the Fund relies on a number of tools and methods, such as risk attribution, stress tests and scenario analyses. It also conducts ongoing ad hoc analyses to illuminate the risk-taking in different parts of the portfolio. Furthermore, the Fund conducts back testing of risk models, as well as assessments and reviews of the limit structure.

Credit risk

Credit risk refers to the risk of loss arising from a creditor's failure to fulfil a credit commitment. The credit risk comprises:

- Counterparty risk the risk that a counterparty in an OTC transaction will become insolvent and unable to fulfil its commitments.
- Issuer risk the risk that an issuer will become insolvent and unable to fulfil its commitments.
- Settlement risk the risk that the counterparty will be unable to deliver on the terms of a contract on the agreed payment date.
- Concentration risk the risk arising when large, important or substantial volumes and/or commitments are concentrated among a limited number of issuers or to a specific sector or geographic region.

CREDIT RISK, SEK BILLION



Ways in which Andra AP-fonden limits credit risk in the fixed-income portfolio include statutory credit checks and exposure limits. The starting point is an agreed interest-rate index for the strategic portfolio. This index is then used to define the parameters determining permitted deviations in terms of credit risk limits as per credit rating. The Fund uses median ratings from the credit rating agencies Standard & Poor's, Moody's and Fitch Ratings to determine the credit risk. If only two agencies publish a rating, the lowest rating is selected. If a rating is available from just one agency, the credit risk is based on this. In addition, the Fund has credit risks in fixed-income funds and unlisted assets (alternative credit funds).

The counterparty risk is monitored and analysed on a daily basis. A credit check is done on each new counterparty. This is followed by continual evaluation of all current relationships. The purpose and nature of the specific business relationship is always the starting point. As well as the counterparty risk associated with deposits and over-the-counter (OTC) derivatives, there is a risk concerning cleared transactions against clearing institutes, although this is minimal. Counterparty risk is limited by means of a Credit Support Annex (CSA) agreement with the counterparty.

Issuer risk is not limited to the risk that the issuer may become insolvent. Losses often arise long before a declaration of bankruptcy. Andra AP-fonden mitigates issuer risk by setting credit risk limits for both individual issuers and groups of issuers. This is achieved, for example, by limiting the total credit risk posed by different groups of issuers based on credit ratings per security.

Settlement risk is mitigated by automatically checking purchases and sales of equities and bonds with reference to the broker/counterparty. Special attention is paid to any non-compliances that can be corrected quickly. Payment and transfer of the transaction take place at the same time.

Andra AP-fonden manages the concentration risk by analysing the geographic and sector allocation, plus the allocation per issuer and issuer group. The most influential factor in managing the concentration risk is the choice of benchmark index.

Liquidity risk

Liquidity risk is the risk that a security cannot be converted into cash in a timely manner without incurring a substantial loss or considerable cost. The AP Funds must also be prepared to transfer funds to the Swedish Pensions Agency. The Fund's liquidity risk is restricted by the National Pension Insurance Funds Act which requires that at least 20 per cent of the Fund's assets be placed in receivables at low credit and liquidity risk, and that a maximum of 40 per cent of the fair value of the assets that the Fund holds may be invested in illiquid assets. The liquidity risk on the liability side is very small and consists of derivative liabilities.

Operational risk

Operational risk is the risk of losses arising from deficiencies or failures in internal processes, human error, faulty systems or external events. Andra AP-fonden identifies operational risks using analytical methods and tools, including self-assessment, incident log, process analysis and workshops. The operational risks are analysed to consider their likelihood and impact. The analysis forms a basis for prioritising the risks and an action plan is created for the largest risks. Process mapping is one of the tools used to identify operational risks. A process organisation with a process sponsor, sub-process owner, process manager, process team and process support has been appointed and there is a structure for follow-up with a joint meeting once a year. Procedures are in place for the continuous development of the processes and monitoring of their risks/controls and to ensure that business is conducted in compliance with the applicable processes. Process development requires both a formalised and a flexible working approach.

Portfolio risk

The ex-post volatility of the listed portfolio, calculated over the twelve months, rose during the year to 13.4 per cent at year-end.

Andra AP-fonden reports a slight increase in active risk ex-post for the total listed portfolio in 2020. As at 31 December, the active ex-post risk for 2020 stood at 0.52 (0.45) per cent. Active risk for the asset class, Swedish equities, increased from 1.9 per cent to 3.0 per cent and other asset classes had only minor changes during the year. Covariance between the relative returns on asset classes in the listed portfolio remained low over the year, indicating a good diversification of active risks in the Fund's portfolio.

Calculated for the 12 months, the information ratio for the listed portfolio was 0.09 at year-end. Due to a slightly lower absolute return, the Sharpe ratio for the Fund's listed portfolio fell during the year to 0.23 at year-end.

The duration in the fixed-income portfolio was 6.5 (6.0) years as at 31 December, representing an increase of about 0.5 year over the previous year. The asset classes green bonds and foreign credits are primarily responsible for the increase. There were minor changes in relation to the total fixed-income portfolio in the remaining asset classes.

The credit quality of the fixed-income portfolio changed somewhat during the year. The Fund had 30 (31) per cent AAA, 12 (10) per cent AA, 22 (23) per cent A, and 27 (22) per cent BBB rated investments.

For the currency-hedged asset classes, alternative asset classes are estimated to have the highest absolute ex-ante volatility (see graph on page 77, Ex-ante volatility and correlation to total portfolio per currency-hedged asset class). Above all, the Fund's investments in private equity funds and traditional real estate have a high estimate of absolute volatility. Fixed-income asset classes are expected to have low absolute risk and the equity risk is expected to be around 10–13 per cent a year. The level of volatility is significantly higher this year due to the extreme market fluctuations in 2020. In order to calculate weighted risk contribution, the correlation with the Fund's total risk also has to be estimated. Equity asset classes are expected to have a high correlation to the Fund's total risk, fixed-income asset classes are estimated to have very low or negative correlation, and alternative asset classes are normally midway between.



SEK million	Contribution to ex-ante VaR (95%, 1 day)	Contribution to ex-ante volatility (1 year)	Percentage risk, %	Percentage market value (%)
Equity risk	3 112	29 971	60	39
Interest rate risk	259	2 497	5	33
Currency risk	0	0	0	0
Alternative investments	1 800	17 331	35	28
Total Andra AP-fonden	5 171	49 799	100	100

VaR and volatility are calculated according to MSCI BarraOne's parametric factor model, which uses a one-year half-life for factor volatility and a three-year half-life for correlations.



RISK MANAGEMENT



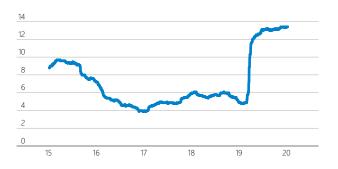
The Fund's total ex-ante volatility is estimated to be 12.9 per cent a year, and it is mainly equity asset classes that contribute most risk. The volatility is high, the allocations are large, and the correlation to the Fund's total risk is therefore high (see graph on page 77, Contributions to ex-ante volatility per asset class and change). Although alternative asset classes have high absolute risk, they contribute proportionately with slightly less risk than equities due to better diversification of the Fund's total risk. Traditional real estate is the asset class that contributes the most risk after listed equities. The risk contributions from all fixed-income mandates are very low. The Fund's currency risk is driven by equities and fixed-income securities in emerging markets.

Expected volatility increased by about 6.2 per cent during the year due to more or less all asset classes contributing to more risk than in the previous year.

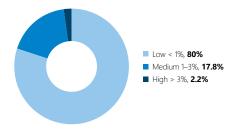
The listed portfolio's active ex-ante risk is estimated to be 0.41 per cent (see graph on page 77, Contributions to listed portfolio ex-ante active risk). Contributions to active risk are dominated by Swedish equities. Absolute return mandates contributed to the risk primarily through foreign currency positions. Swedish equities contributed mostly with idiosyncratic risk.

The Fund's one-day 95 per cent VaR (Value at Risk) is estimated to be approximately SEK 5.2 billion (see table on page 75). In other words, with an assumed probability, the Fund is expected to lose a maximum of SEK 5.2 billion a day per month. The Fund's one-year volatility is estimated to be approximately SEK 49.8 billion. This means that the Fund, with a standard deviation probability, estimates that next year's results will be between plus and minus SEK 49.8 billion, provided that the positions from year-end do not change.

VOLATILITY IN THE LISTED PORTFOLIO THE LAST FIVE YEARS, %

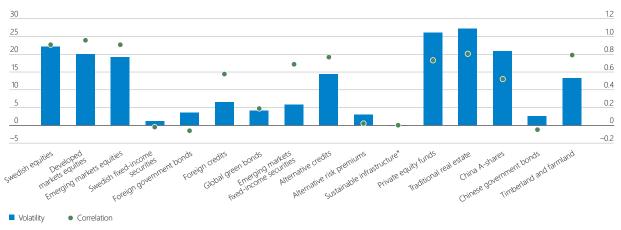


ALLOCATION OF ACTIVE RISK, %



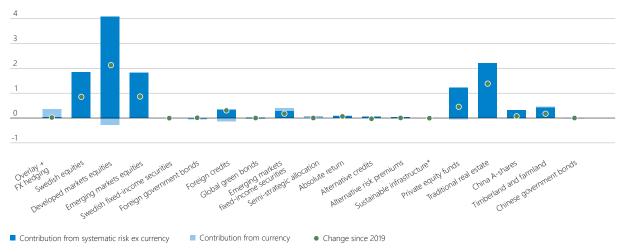
RISK MANAGEMENT

EX-ANTE VOLATILITY AND CORRELATION TO TOTAL PORTFOLIO PER CURRENCY-HEDGED ASSET CLASS



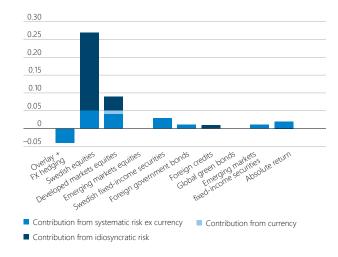
^{*} Sustainable infrastructure is a new asset class under implementation.

CONTRIBUTIONS TO EX-ANTE VOLATILITY PER ASSET CLASS AND CHANGE, %



^{*}Sustainable infrastructure is a new asset class with no risk model.

CONTRIBUTIONS TO LISTED PORTFOLIO EX-ANTE ACTIVE RISK, %



Currency exposure

The degree of currency exposure is a risk factor that may impact the value of all asset classes traded in currencies other than the Swedish krona. At year-end, 34 (34) per cent of the Fund's portfolio was exposed to foreign currency risks. The largest part was the Fund's exposure to USD, CNY and HKD. The Fund's currency hedging pol-

icy is set by the Board of Directors and is part of the Fund's portfolio optimisation process. The policy aims to mitigate risks in the portfolio and a systematic currency hedging programme is actively implemented. The portfolio's total currency exposure in 2020 had a negative impact on the result due to the net strengthening of the

Swedish krona against other currencies. The currency hedging programme had a positive impact on the result. A total of SEK –16.0 (5.4) billion in foreign-exchange losses was recognised for the Fund's total portfolio exposed to foreign currency risks, including currency hedging.

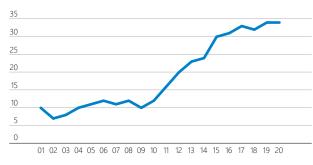
CURRENCY EXPOSURE 2020 AND 2019, EQUIVALENTS IN SEK MILLION

31 Dec 2020	USD	CNY	HKD	EUR	IDR	INR	Other	Total
Shares and participations	96 203	11 485	10 878	21 123	5 044	8 180	37 929	190 842
Bonds and other fixed-income securities	42 897	3 911	_	27 324	0	_	26 367	100 499
Other assets and liabilities, net	1 347	524	156	478	1 735	25	-1 015	3 250
Derivatives excl. foreign exchange derivatives	2	_	_	2	_	_	-4	0
Foreign exchange derivatives	-104 478	_	-46	-40 093	72	-1 462	-21 453	-167 460
Currency exposure, net	35 971	15 920	10 988	8 834	6 851	6 743	41 824	127 131

31 Dec 2019	USD	CNY	HKD	EUR	IDR	INR	Övr	Total
Shares and participations	96 037	9 907	8 491	20 537	659	2 905	43 759	182 295
Bonds and other fixed-income securities	49 658	4 076	_	25 045	2 338	_	24 228	105 345
Other assets and liabilities, net	190	480	23	490	2 708	1 733	-2 815	2 809
Derivatives excl. foreign exchange derivatives	_	-	_	_	_	_	_	0
Foreign exchange derivatives	-97 139	-40	-71	-39 152	569	498	-25 702	-161 037
Currency exposure, net	48 746	14 423	8 443	6 920	6 274	5 136	39 470	129 412

Currency exposure is reported in accordance with the Fund's actual management of the currency risk, which means that it is based on the currency of the trading venue and not on the currency of each company's domicile.

CURRENCY EXPOSURE, GROWTH SINCE START, %



- Currency exposure Andra AP-fonden

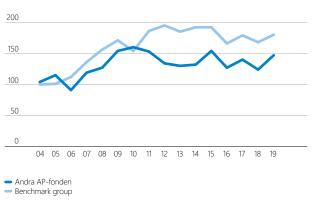
Statutory limit for currency exposure is 40 per cent.

OVERVIEW

Active efforts to minimise costs

Andra AP-fonden works to ensure all asset management processes are run in a cost-effective way. During the budget process, the responsibility for efficient management of the resources is controlled in a highly decentralised manner, in which each individual with budget responsibility is involved in their own budget and the Fund's total budget. The Fund also maintains a continuous focus on costs that impact net income for each asset class, such as transaction costs.

COST-EFFICIENCY COMPARISON WITH INTERNATIONAL PENSION FUNDS 2004–2019, INDEXING



The CEM study shows Andra AP-fonden's cost level in relation to the comparison group for the period 2004–2019.

Source: CEM

Transaction costs represent the cost associated with the implementation of each individual transaction, whether it is listed or unlisted assets. In asset classes with a high volume of transactions, the challenge is to trade in a cost-effective manner. The Fund's design of its own benchmark indices and choice of implementation methods for these are examples of an active, overall approach.

Starting at the construction stage of the strategic portfolio, consideration is given to transaction costs and various other cost aspects associated with choice of asset class and implementation methods. Fund management is conducted internally where possible and where this is considered cost-effective.

The major focus for the 2020 budget process was on keeping external management costs down without greatly changing the characteristics of the portfolio.

Implementation effects and rebalancing

The fact that the capital market is occasionally subject to a high degree of volatility places particular demands on flexibility to enable adjustments in mandate and investment focus. The Fund's capital must be exposed to the markets in an efficient manner, as per

the strategic portfolio, and rebalanced during major market fluctuations. This requires a well-developed methodology and great expertise. Andra AP-fonden employs a floating strategic benchmark index and the actual portfolio is adjusted daily to replicate this. The costs and revenues attributable to strategic changes in the benchmark index, known as transitions, and the ongoing rebalancing of the strategic portfolio, are referred to as implementation effects. The implementation effects in 2020 were –0.16 per cent.

Cost comparison from a global perspective

An established method for measuring and comparing the cost efficiency of pension funds from an international perspective has been developed by CEM (Cost Effectiveness Measurement Inc.). The method enables a comparison that takes into account several factors that have a strong impact on the overall cost of managing a fund: the volume of assets under management, the degree of assets under active management and external mandate, and the relative allocations for each class of asset. The study compares pension funds' costs with those of an international group of fund managers of approximately the same size and with a similarly composed port-

DIRECTORS' REPORT

folio. Andra AP-fonden has been taking part in CEM's annual comparison study since 2004. According to the latest analysis (2019), Andra AP-fonden continues to carry out its asset management duties in a successful and cost-effective way. The Fund's cost level is still lower than that of the benchmark group by a wide margin. This can mainly be attributed to cost-effective internal management and significantly less use of external management.

MACRO

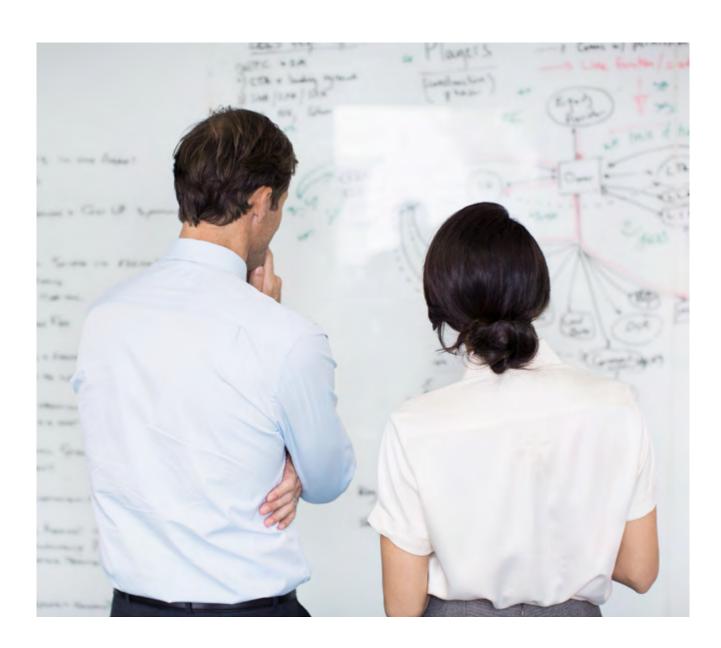
VAT

The AP Funds have been registered for VAT since 2012 and are thus liable to pay VAT on acquisitions from outside Sweden. Since the Funds do not have the right to reclaim the VAT paid, the VAT registration has resulted in a direct increase in the Fund's costs for such services. In 2020, the costs for Swedish VAT on services acquired from outside Sweden totalled SEK 29 (30) million.

Collaboration with other AP Funds

The Funds have used digital platforms to meet and exchange information in 2020. Although each Fund has focused greatly on maintaining its internal activities during the pandemic, the cross-Fund groups have been able to share information and learnings, especially on how work can be performed in and outside the office.

One issue they have been addressing together is how they can best contribute to increasing transparency of profit distribution in unlisted assets.



Accounts & notes

Income statement

Amounts in SEK million	Note	Jan-Dec 2020	Jan-Dec 2019
Operating income			
Net interest income	1	2 956	3 836
Dividends received		4 214	5 754
Net income, listed equities and participations	2	14 703	27 129
Net income, non-listed equities and participations	3	5 754	6 278
Net income, fixed-income securities		3 757	6 108
Net income, derivative instruments		-2 063	-932
Net income, foreign exchange gains/losses		-16 033	5 401
Commission expenses, net	4	-277	-292
Total operating income		13 011	53 282
Operating expenses			
Personnel expenses	5	-150	-147
Other administrative expenses	6	-85	-93
Total operating expenses		-235	-240
NET RESULT FOR THE YEAR		12 776	53 042

Balance sheet

Amounts in SEK million	Note	31 Dec 2020	31 Dec 2019
ASSETS			
Equities and participations			
Listed	7	169 880	161 554
Non-listed	8	80 486	78 168
Bonds and other fixed-income securities	9	122 272	133 875
Derivative instruments	10	10 203	5 734
Cash and bank balances		7 253	3 908
Other assets	11	959	206
Prepaid expenses and accrued income	12	1 383	1 721
TOTAL ASSETS		392 436	385 166
FUND CAPITAL AND LIABILITIES			
Liabilities			
Derivative instruments	10	2 412	1 537
Other liabilities	13	3 578	1 589
Deferred income and accrued expenses	14	222	690
Total liabilities		6 212	3 816
Fund capital	15		
Fund capital at beginning of year		381 350	334 828
Net payments to the national pension system		-7 902	-6 520
Net result for the year		12 776	53 042
Total fund capital		386 224	381 350
TOTAL FUND CAPITAL AND LIABILITIES		392 436	385 166
Pledged assets and contingent liabilities	16		
Other pledged assets and contingent liabilities		2 823	969
Commitments		29 677	26 459

MISSION AND GOAL

The annual report shall be prepared in accordance with the "Swedish National Pension Funds Act (2000:192)" and implemented in line with generally accepted accounting principles, on the understanding that the assets in which the Fund's capital is invested shall be booked at market value. On this basis, the First to Fourth AP Funds have drafted and implemented joint accounting and valuation principles, as applied and summarised below.

The AP Funds' accounting and valuation principles are being gradually adjusted to comply with the international IFRS accounting standard. Full compliance with the IFRS standard would not essentially affect the reported net result and capital assets. Andra AP-fonden meets the requirements for definition as an investment company as per IFRS 10. The only significant differences to IFRS requirements are that no cash flow statement is prepared and that IFRS 16 is not applied.

Trade date accounting

Transactions in securities and derivatives in the money and bond market, equities market and currency market are reported in the balance sheet on the trade date, i.e. the date when the significant rights and thus the risks are transferred between the parties. Any amounts receivable from or payable to the other party between the trade date and settlement date are recorded under Other assets and Other liabilities respectively. Other transactions, especially those involving non-listed equities, are shown in the balance sheet as per the settlement date, in line with generally accepted market practice.

Net accounting

Financial assets and liabilities are net accounted in the balance sheet when there is a legal right of set-off and an intention to effect a net payment or to liquidate the asset and pay the liability simultaneously.

Foreign currency conversion

Transactions in foreign exchange are converted into Swedish kronor at the rate applied on the transaction date. On the balance sheet date, assets and liabilities in foreign currency are converted into Swedish kronor at closing day rates. Changes in the value of assets and liabilities in foreign currency are separated into that part attributable to the change in value of the asset or liability, and that part attributable to the change in the exchange rate. The exchange rate differential arising due to the change in the exchange rate is reported in the income statement under Net result, exchange gains/losses.

Equities in subsidiaries/associated companies

In compliance with the Swedish National Pension Funds Act, both equities in and loans to subsidiaries/associated companies are recorded at their fair value. Fair value is determined by the same methods applied to non-listed equities and participations. There is no requirement to draw up consolidated financial statements. Loans to subsidiaries and associated companies that are intended to be held to maturity are valued at fair value through the Fair value option in IFRS 9. However, the entire change in value is reported as part of the shareholding on the line Net result, non-listed equities and participations.

Valuation of financial instruments

All Fund investments are calculated at their fair value, whereby realised and unrealised changes in value are reported in the income statement. Consequently, realised and unrealised profit/loss per asset class are included under Net result. Equity instruments are held for trading and are therefore valued at fair value in the income statement. Debt instruments are held for trading and are therefore valued at fair value in the income statement. Loans to subsidiaries

and associated companies are intended to be held to maturity, but here the fair value option is utilised in order for the law on public pension funds requirements for fair value measurement to be fulfilled. In cases where reference is made below to the selected index provider, see page 21 for information on the current index. The AP Funds follow all their assets based on fair value. For a description of how fair value is determined for the Fund's numerous investments, see below

Listed equities and participations

In the case of equities and participations traded on a regulated market or trading platform, fair value is based on the official market rate applied at the balance sheet date, according to the Fund's selected index supplier, often the average market rate. Holdings not included in the index are valued at the listed rates observable on an active market. Commissions paid are taken up as income under Net result, listed equities.

Non-listed equities and participations

As regards equities and participations not traded on a regulated market or trading platform, fair value is based on the valuation made by the counterparty or other external party. This valuation is updated once the new valuation has been received and adjusted for eventual cash flows up to the end of the accounting period. In cases where the Fund has good reason to believe that the value assigned by the fund administrator is incorrect, the received value is adjusted.

The valuation of non-listed participations shall follow IPEV (International Private Equity and Venture Capital Valuation) Guidelines or similar valuation principles, first and foremost being based on transactions with third parties, although other valuation techniques may also be employed.

ACCOUNTING AND VALUATION PRINCIPLES

The valuation of non-listed real-estate equities is based on the material value method, in as far as the equity has not been the subject of transactions on a resale market. Deferred tax liabilities relating to holdings in non-listed real-estate companies have been determined at the value applied to the actual property transactions, as distinct from the value reported in the accounts of the real-estate companies.

Bonds and other fixed-income securities

For bonds and other fixed-income securities, fair value is based on the official market rate (usually the bid rate) applied on the balance sheet date, according to the Fund's selected index supplier. Holdings not included in the index are valued at the listed rates observable on an active market. In cases where such instruments are not traded on an active market, and where no reliable listed market rates are available, the instrument shall be valued with the support of generally accepted theoretical models, whereby cash flows are discounted according to an appropriate valuation scale.

Interest calculated according to the effective interest method, based on accrued acquisition value, is reported as interest income. The accrued acquisition value is the net present value of future payments, where the discount rate is the compound interest at the time of acquisition. This means that premiums or discounts acquired are accrual accounted over the security's remaining term or until the next adjustment in the interest rate, and are reported as interest income. Changes in value arising from adjustments to interest rates are reported under Net result, fixed-income securities, while changes in value arising from FX gains/losses are reported under Net result, exchange gains/losses.

Derivative instruments

Where derivative instruments are concerned, fair value is based on their listed rates at year-end. In cases where such instruments are not traded on an active market, and where no reliable listed market rates are available, the instrument shall be valued with the support of generally accepted theoretical models, where input data consists exclusively of observable market data.

Derivative contracts with a positive market value on the balance sheet date are reported as investment assets, while transactions with a negative market value are reported as liabilities. Changes in value arising from FX gains/losses are reported in the income statement under Net result, exchange gains/losses, while other changes in value are reported under Net result, derivative instruments.

Buy-backs

In a true buy-back transaction, also known as a repurchase agreement, the asset sold is still reported in the balance sheet and the payment received is reported as a liability. The sold security is reported as a pledged asset among memorandum items in the balance sheet. The difference between spot payment and forward rate is accrual accounted over the term and reported as interest.

Securities lending

Securities on loan are reported in the balance sheet at their fair value, while premiums received are reported as interest income in the income statement. Collateral received for securities lent consists of securities and/or cash. In cases where Andra AP-fonden has rights of disposal over the cash received as collateral, this is reported in the balance sheet as an asset and a corresponding liability. In cases where the Fund lacks these rights of disposal, collateral received is reported not in the balance sheet, but in a separate note, under 'Pledged assets and contingent libilities'. The net worth of securities on loan and their collateral is also reported under this heading.

Items entered directly against Fund capital

Contributions to and disbursements from the pension system are entered directly against Fund capital.

Commission expenses

Commission expenses are reported in the income statement as a deduction under Operating income. These comprise direct transaction costs such as custodial expenses and fixed fees to external portfolio managers, as well as fixed fees for listed funds. The performance-based fee, which is paid out if the portfolio manager attains a return on investment in excess of the agreed level, where profit-sharing is applied, is reported as a deductible item under net result per asset class in the income statement.

Management fees for non-listed equities and participations are recognised as acquisition expenses and will thus be included in the unrealised result.

Operating expenses

All expenses incurred, excluding brokerage commissions, performance-based fees to external portfolio managers and custodial expenses, are reported under Operating expenses. Investments in equipment and in-house developed and externally purchased software are booked on current account.

Tax

Andra AP-fonden is exempt from all income tax on investments in Sweden. The tax some countries levy on dividends, as well as withholding tax, is net accounted in the income statement under respective income classes.

As of 2012, Andra AP-fonden became VAT registered. Consequently, VAT is now liable on services charged outside Sweden. The Fund is therefore not entitled to recover invoiced VAT. The cost of VAT is included with the respective cost item.

Amounts cited are in millions of kronor (SEK m), unless otherwise stated.

Notes to the income statement and balance sheet

NOTE 1 Net interest income

Amounts in SEK million	Jan-Dec 2020	Jan-Dec 2019
Interest income		
Bonds and other fixed-income securities	2 966	3 814
Other interest income	35	55
Total interest income	3 001	3 869
Interest expense		
Other interest expense	-45	-33
Total interest expense	-45	-33
Net interest income	2 956	3 836

NOTE 2 Net result, listed equities and participations

Amounts in SEK million	Jan-Dec 2020	Jan-Dec 2019
Net result, listed equities and participations	14 801	27 197
less brokerage commission	-98	-68
Net income, listed equities and participations	14 703	27 129

NOTE 3 Net result, non-listed equities and participations

Amounts in SEK million	Jan-Dec 2020	Jan-Dec 2019
Capital gains, net	2 527	2 280
Unrealised changes in value	3 227	3 998
Net income, non-listed equities and participations	5 754	6 278

External management fees are reported as part of the acquisition value of the asset and are charged to the unrealised net results for non-listed assets. Repaid management fees therefore have a positive effect on unrealised results.

During the year, a total of SEK 397 (307) million was paid in management fees relating to non-listed assets. Also during the year, SEK 388 (225) million was repaid and the unrealised result for non-listed equities and participations was thus negatively impacted by SEK –9 (–82) million.

NOTE 4 Commission expenses, net

Amounts in SEK million	Jan-Dec 2020	Jan-Dec 2019
External asset management fees, listed assets	236	249
Other commission expenses including custodial expenses	41	43
Total commission expenses	277	292

Commission expenses do not include performance-based expenses. Performance-based expenses for the year totalled SEK 293 (148) million and reduced net income for the respective asset classes. MACRO

NOTES

Note 4 contd.

EXTERNAL MANAGEMENT MANDATES AT 31 DECEMBER 2020, SEK MILLION

Mandate		Average assets under management 2019	Market value 31 Dec 2020*	% of Fund capital	External management expense
External discretiona	ary mandates				
Equity mandates					
Active managemen	nt				
MFS	Global equities	5 702	6 124		
APS	Chinese A-shares	3 682	2 452		
Cephei	Chinese A-shares	3 927	4 666		
UBS	Chinese A-shares	3 855	4 652		
Total external discre	etionary mandates	17 166	17 894	5	93
Investments in liste	ed external funds				
Equity funds		10 056	6 992		
Fixed-income funds		13 754	5 734		
Total investments in	n listed external funds	23 810	12 726	3	144
Investments in non-	listed private equity funds				
and real-estate fund	ds	30 559	32 228	8	
	SETS UNDER EXTERNAL				
MANAGEMENT AN	D MANAGEMENT EXPENSES	71 535	62 848	16	237

 $^{{}^{\}star}\,\mathsf{Market}\,\mathsf{value}\,\mathsf{including}\,\mathsf{allocated}\,\mathsf{liquidity},\,\mathsf{derivative}\,\mathsf{instruments}\,\mathsf{and}\,\mathsf{accrued}\,\mathsf{interest}.$

NOTE 5 Personnel expenses

		2020		2019		
Number of employees	Total	Men	Women	Total	Men	Women
Average number of employees	72	47	25	70	46	24
Number of employees, 31 Dec	71	47	24	71	47	24
Number of persons in Executive Management, 31 Dec	6	4	2	6	4	2

Variable

remuneration

Pension

costs

Social costs incl.

special employ-

er's contribution

70

Of which

salary swap

Total

285

NOTES

Note 5 contd.

Chair of the Board

Personnel costs in SEK thousands, 2020

CEO	4 264	-	1 556	254	1 740	7 560
Board of Directors, excluding Chair	925	-	-	-	189	1 114
Executive Management, excl. CEO						
Chief Investment Officer (CIO)	3 056	_	1 028	444	1 256	5 340
Head of Business Support	1 863	_	939	_	814	3 616
General Counsel	2 435	-	711	102	986	4 132
Head of Communications and Governance	1 916	-	710	127	809	3 435
Head of Performance and Risk Management	1 884	-	653	66	752	3 289
Other employees	62 193	5 296	24 403	_	26 675	118 567
Total	78 751	5 296	30 000	-	33 291	147 338
Other personnel costs						2 247
Total personnel costs						149 585
Personnel costs in SEK thousands, 2019	Salaries and fees	Variable remuneration	Pension costs	Of which salary swap	Social costs incl. special employ- er's contribution	Total
Chair of the Board	115	_	-	_	37	152
CEO	4 086	-	1 522	254	1 674	7 282
Board of Directors, excluding Chair	503	_	_	_	110	613
Executive Management, excl. CEO						
Chief Investment Officer (CIO)	3 019	-	1 068	481	1 230	5 317
Head of Business Support	1 829	_	929	_	802	3 560
General Counsel	2 374	-	711	110	823	3 908
Head of Communication & HR	1 844	_	710	138	634	3 188
Head of Performance and Risk Management	1 900		656	55	758	3 314
Other employees	58 823	5 969	24 569	_	26 651	116 012
Total	74 493	5 969	30 165	-	32 719	143 346
Other personnel costs						4 095
Total personnel costs						147 441

Salaries

and fees

215

Board of Directors

Fees and other remuneration paid to the Board Members are determined by the Swedish Government. Annual remuneration is SEK 200 000 to the Chair, SEK 150 000 to the Vice Chair and SEK 100 000 to the other Members of the Board. The Swedish Government has determined that a total of SEK 100 000 may be paid for committee work. Board Members have not received remuneration for their work in the Remuneration Committee. The Chair has received SEK 30 000 and Members have received SEK 25 000 for work in the Risk Committee. The Chair has received SEK 20 000 and a Member has received SEK 15 000 for work in the Audit Committee.

Other directorships held by Members of the Board See page 107.

CEO

In the CEO's contract of employment, the Fund undertakes to pay pension benefits and health insurance up to a pensionable age of 65 years, in the form of an annual premium corresponding to 30 per cent of the gross salary. Where the contract of employment is terminated by the Fund, the CEO is entitled to a severance payment equivalent to 18 months' salary, in addition to salary paid during the 6-month period of notice, less income from a new appointment. Calculation of severance payment is based on the cash monthly salary at the end of the notice period. Benefits received by the CEO amount to SEK 16 (13) thousand.

Executive Management Team

In addition to salaries, other remuneration and pension contributions, the Executive Management Team has received benefits as per the following disclosure: Chief Investment Officer SEK 26 (73) thousand, Head of Business Support SEK 4 (5) thousand, General Counsel SEK 4 (5) thousand, Head of Communications and Governance SEK 4 (6) thousand, Head of Performance and Risk Management SEK 6 (6) thousand. The scheme for performance-based variable remuneration is not applicable to the Executive Team members. Senior executives come under the terms of the retirement benefit agreement between BAO (The Employers' Organisation of the Swedish Banking Institutions) and AKAVIA/CR/CF (SACO), The Swedish Confederation of Professional Associations. Swedish Government guidelines specify 6 months' notice and 18 months' severance pay for senior executives. A senior executive of Andra AP-fonden appointed before the Government guidelines came into force has a 12-month notice period without severance pay. These terms have not been renegotiated, as this would incur higher costs for the Fund.

Salary swap

All employees are offered the opportunity to exchange part of their salary to get additional pension contributions.

SUSTAINABILITY

NOTES

Note 5 contd.

Variable remuneration

The Board of Directors has approved a programme for variable remuneration in line with Swedish Government guidelines. Andra AP-fonden's incentive scheme is available to all staff except for the CEO and other members of the Fund's Executive Management Team and the Compliance function. All participants in the scheme may receive a maximum of two months' salary in variable remuneration. The scheme is linked to long-term goals. The variable remuneration may only be paid out when the Fund reports a positive return. The scope of the scheme is described on the Fund's website.

Preparation and decision process

The remuneration paid to the Board of Directors is determined by the Swedish Government. The Board determines the CEO's salary and guidelines for remuneration of senior executives.

Government guidelines

Andra AP-fonden has been taking part in the Willis Towers Watson salary and benefits survey for several years. The purpose of the survey is to report on the market rate for salaries and benefits paid to different staff categories, based on data supplied by the participating companies. Andra AP-fonden uses the statistics to compare remuneration levels for all its employees. For 2020, the Fund's remuneration levels were compared with 20 or so private and state players in the financial sector, including the other AP Funds. The Fund's remuneration policy is based on the idea that the level of remuneration should be close to the median for the reference group employed in the Willis Towers Watson salary and benefits survey.

In the opinion of the Board, the levels of remuneration paid to senior executives and other Fund employees are reasonable, well balanced, competitive, capped and adequate, and promote high ethical standards and a good organisational culture. They are not market-leading salaries when benchmarked against similar institutions, but are moderate and fall within the employee remuneration parameters set by the Board. The Board is satisfied that the Fund complies with Swedish Government guidelines on remuneration, apart from the above mentioned exception concerning period of notice. The combined costs incurred in connection with termination of employment are well within the limits defined in the Swedish Government quidelines. More information is available on the Fund's website.

Other

In accordance with Swedish law, trade unions are free to operate at Andra AP-fonden. The Fund has no employees under the age of 18.

NOTE 6 Other administrative expenses

Amounts in SEK million	Jan-Dec 2020	Jan-Dec 2019
Cost of premises	7	6
Information and IT expenses	61	66
Purchased services	10	11
Other expenses	7	10
Total other administrative expenses Fees to auditors	85	93
Audit services		
PwC	0.81	0.75
Non-audit services		
PwC	0.00	0.10
Total paid to PwC	0.81	0.85

NOTE 7 Equities and participations, listed

Amounts in SEK million	31 Dec 2020	31 Dec 2019
Swedish equities	36 741	35 811
Foreign equities	126 147	114 211
Participation in foreign funds*	6 992	11 532
Total listed equities and participations	169 880	161 554
* of which participation in mixed funds	-	_

Like others engaged in long-term asset management, Andra AP-fonden is also active in securities lending. The lending takes place to counterparties that have high credit ratings and provide collateral equivalent to about 105 per cent of the market value of loaned securities.

In 2020, income from securities lending totalled SEK 9 million. This made a positive contribution to the Fund's relative return and is recognised as interest income in the income statement. Guarantees secured for loaned securities is reported in Note 16.

The 20 largest Swedish and foreign holdings in terms of value are listed on pages 100–102.

A complete list of Swedish and foreign holdings is available on the Fund's website.

NOTES

NOTE 8 Equities and participations, non-listed

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Amounts in SEK million	31 Dec 2020	31 Dec 2019
Swedish equities in associated companies	20 956	20 590
Foreign equities in subsidiaries and associated companies	24 583	25 955
Other non-listed Swedish equities and participations	-	_
Other non-listed foreign equities and participations	34 947	31 623
Total non-listed equities and participations	80 486	78 168

Amounts in SEK million	Corp. Reg.	Registered office	No. of equities	Holding, %	31 Dec 2020 Fair value	31 Dec 2019 Fair value	Own capital	Result
Swedish equities in associated companies								
Vasakronan Holding AB	556650-4196	Stockholm	1 000 000	25	20 956	20 590	70 869*	3 714*
Foreign equities in subsidiaries and associated companies								
Chaptwo S.à.r.l.		Luxemburg		100	2 650	2 472		
Lewis & Clark Timberlands LLC		USA		24	1 212	1 415		
Molpus Nordic Woodlands L.P.		USA		99	1 273	1 418		
TIAA-CREF Global Agriculture LLC		USA		23	2 576	3 096		
TIAA-CREF Global Agriculture II LLC		USA		25	5 070	5 868		
U.S. Office Holdings L.P.		USA		41	4 337	5 034		
U.S. Core Office APTWO L.P. **		USA		99	5 528	5 365		
U.S. Office APTWO JV II L.P.***		USA		99	1 937	1 287		
Sum of foreign shares in subsidiaries and associated companies					24 583	25 955		

Amounts in SEK million	Registered office	Holding, %	31 Dec 2020 Acquisition value	31 Dec 2019 Acquisition value
Five largest holdings in other non-listed foreign equities and participations				
Gateway VI Co-Investment Account (AP2) L.P.	Cayman Islands	10	986	686
Generate Capital, Inc.	USA	7	839	_
Riverstone Pattern Energy III, L.P.	USA	13	790	_
TIAA European Farmland Fund LP	Cayman Islands	43	779	696
Pathway Private Equity Fund IXC, LLC	USA	99	743	774

A complete list of Swedish and foreign non-listed holdings may be found on the Fund's website.

^{*} Refers to figures published 31 December 2020.

** Holding company with a 41 per cent stake in US Core Office Holding L.P. and minority stakes in other real estate, together with NPS and Tishman Speyer.

*** Holding company with minority stakes in other real estate, together with NPS and Tishman Speyer.

NOTES

NOTE 9 Bonds and other fixed-income securities

	31 Dec 2020	31 Dec 2019	
Amounts in SEK million	Fair value	Fair value	
Breakdown by issuer category			
Swedish Government	3 856	4 302	
Swedish municipalities	459	909	
Swedish mortgage institutions	8 121	13 428	
Other Swedish issuers			
Financial companies	6 337	7 067	
Non-financial companies	1 734	1 819	
Foreign governments	43 068	39 039	
Other foreign issuers	58 690	67 004	
Deposits	7	307	
Total	122 272	133 875	
Breakdown by type of instrument			
Other bonds	114 970	117 342	
Non-listed loans	1 561	1 397	
Participation in foreign fixed-income funds	5 734	14 829	
Deposits	7	307	
Total	122 272	133 875	

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NOTE 10 Derivative instruments

	31 Dec 2	2020	31 Dec 2	019
Amounts in SEK million	Fair value Positive	Fair value Negative	Fair value Positive	Fair value Negative
Equity-related instruments				
Forward contracts	-	-	_	_
Total	-	-	-	_
of which cleared	-	-	_	-
Interest-related instruments				
FRAs/Futures	0	-	_	6
Swaps	0	201	0	157
Total	0	201	0	163
of which cleared	-	-	=	=
Currency-related instruments				
Options, held	34	-	23	_
Options, pledged	_	30	_	15
Forward contracts	10 169	2 181	5 711	1 359
Total	10 203	2 211	5 734	1 374
of which cleared	0	-	=	-
Total derivative instruments	10 203	2 412	5 734	1 537

Derivative positions with a negative value of SEK 201 million have a longer maturity than 12 months. The positions relate to swap agreements that mature in 2031 or 2032.

Pledged put options are part of the Fund's strategy to reduce total risk. The net position of put options has a limit on maximum loss. In the case of

currency options sold, Andra AP-fonden is always required to fulfil the commitments of the options contract, i.e. once the Fund has sold a currency option, the buyer is entitled to exercise it whether or not this is advantageous at the current rate. Where other put options are concerned, the Fund is not subject to any special delivery requirements.

Use of derivative instruments

Derivative instruments are the primary means of hedging the Fund's portfolios. They also contribute to more efficient portfolio management, create added value and reduce risk. Andra AP-fonden's use of derivatives is regulated by the Fund's business plan. Call options and forward contracts may only be issued if adequate collateral is available in the form of holdings in underlying assets. In 2020, derivatives were used particularly in the following areas:

- Foreign exchange derivatives forward contracts and options

 for managing the Fund's currency exposure.
- Equity derivatives mainly standardised equity-index forward contracts

 for efficient rebalancing of the portfolio and when adopting positions in tactical asset allocation.
- Interest derivatives mainly standardised interest forwards and interest rate swaps – for rebalancing, tactical asset allocation and managing the Fund's interest risk. Limited utilisation of interest options to position the Fund in respect of interest risk.
- Structured derivatives used to create exposure to market fluctuations that are not available in traditional equity, interest or foreign exchange derivatives.
- Positions are taken through derivatives within the framework of the Fund's tactical allocation mandates and alternative risk premium mandates. The mandates are allowed to act with the help of short and long positions in the permitted asset classes.

Derivative exposures are continuously monitored and analysed. Equity and interest derivatives are traded mainly on standardised markets in cleared products, which is why counterparty risks are limited to the clearing institute. Trading with currency and credit market derivatives is not standardised, both counterparty and delivery risks exist with respect to the Fund's counterparties.

The CEO approves and sets limits for the counterparties that the Fund uses for non-standardised products and the exposure is continuously monitored. For OTC trading, the Fund requires standardised contracts, such as ISDA and to an increasing extent CSA, which regulate the collateral held by the counterparties.

MACRO

NOTE 11 Other assets

Amounts in SEK million	31 Dec 2020	31 Dec 2019
Incoming payments, unsettled transactions	952	200
Other receivables	7	6
Total	959	206

NOTE 12 Prepaid expenses and accrued income

Amounts in SEK million	31 Dec 2020	31 Dec 2019
Accrued interest income	989	1 309
Accrued dividends	200	240
Restitutions	173	150
Other prepaid expenses and accrued income	21	22
Total	1 383	1 721

NOTE 13 Other liabilities

Amounts in SEK million	31 Dec 2020	31 Dec 2019
Outgoing payments, unsettled transactions	1	79
Accounts payable	29	20
Other liabilities	3 548	1 490
Total	3 578	1 589

NOTE 14 Deferred income and accrued expenses

Amounts in SEK million	31 Dec 2020	31 Dec 2019
Accrued external management fees	47	36
Accrued interest expenses on currency forwards	140	621
Other accrued expenses	35	33
Total	222	690

NOTE 15 Fund capital

Amounts in SEK million	31 Dec 2020	31 Dec 2019
Fund capital at beginning of year	381 350	334 828
Net payments to the national pension system		
Pension contributions received	73 872	72 343
Pension disbursements to the Swedish Pensions Agency	-81 564	-78 681
Transfer of pension entitlements to EC	-2	_
Adjustment of pension entitlements regarding previous years	2	3
Administration contribution to the Swedish Pensions Agency	-210	-185
Total net payments to the pension system	-7 902	-6 520
Net result for the year	12 776	53 042
Fund capital at year-end	386 224	381 350

NOTE 16 Pledged assets and contingent liabilities

Amounts in SEK million	31 Dec 2020	31 Dec 2019
Other pledged assets and contingent liabilities		
Securities on loan for which guarantees have been secured in the form of securities and cash*	669	655
Securities pledged in connection with exchange-cleared derivatives	1 484	237
Securities pledged in connection with OTC-derivatives (CSA agreement)**	670	77
	2 823	969
Commitments		
Commitments regarding future payments, non-listed holdings	25 177	21 949
Subscription commitments, certificates	4 500	4 500
New issue guarantee	-	10
	29 677	26 459

- Guarantees secured for securities on loan amount to SEK 743 (695) million.
 Book value for liabilities relating to cash received as collateral for OTC derivatives is SEK 3 249 (1 479) million. Collateral received in the form of securities for OTC derivatives is SEK 3 291 (2 401) million.

STRATEGY AND MANAGEMENT

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NOTE 17 Financial instruments, price and valuation hierarchy

Valuation of Fund capital - Market-listed assets

The great majority of the Fund's assets are market-listed, which means they are traded in an active market at rates that represent actual and regularly occurring market transactions. The Fund's market-listed assets are valued on a daily basis at listed market rates and comprise equities, bonds, derivatives, funds and currencies.

Values of OTC derivatives are measured on the basis of either theoretical models or valuations from external parties. Values of the Fund's holdings in forward exchange contracts, interest rate swaps and currency options are measured on the basis of theoretical models, where the model's subjective parameters are currently solely the choice of interest rate curves, volatility curves and method to calculate and estimate future values (interpolation and extrapolation). The same method is applied for deposits, short-term certificates and similar instruments.

For other OTC derivatives, valuations from external parties are used exclusively without subjective parameters from the Fund. At year-end 2020, the Fund's portfolios contained only a few outstanding structured OTC derivatives.

During periods when the market lacks liquidity for market-listed securities, a higher degree of subjectivity is required for valuation. At such times, the market exhibits sharp differences in bid and offer rates, leading even to significant differences between market participants. At times like these, Andra AP-fonden takes a conservative valuation approach. If an asset is deregistered, market listings in alternative trading venues are taken into consideration. In such instances, each individual security is appraised separately.

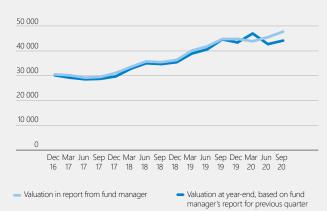
Valuation of Fund capital - Non-listed assets

For assets not valued on an active market, different measurement methods are used to calculate fair value on the measurement date.

The fair value is considered to be equal to the price at which a transaction between informed and mutually independent parties can be completed. In Andra AP-fonden's case, assets not listed on markets are non-listed real estate (14,7 per cent of the total portfolio), private equity funds (6,6 per cent of the total portfolio) and sustainable infrastructure (0,5 per cent of the total portfolio).

The value of investments in non-listed private equity funds and realestate funds is valued by reference to the International Private Equity and Venture Capital Valuation (IPEV) Guidelines or an equivalent set of principles and shall primarily be based on transactions with third parties, but other valuation methods may also be used.

VALIDATION OF VALUATIONS WITH TIME-LAGGED REPORTING, SEK MILLION



An analysis of the impact on the result arising from the time-lag reveals that Andra AP-fonden's valuations in its official annual accounts are in all essential respects lower than the values cited in the final report submitted by fund managers.

To calculate fair market values, the asset managers mainly use discounted cash flows, the net asset value method and multiple valuation methods. Valuation of holdings is based on the most recent interim reports received from the respective managers. The interim reports are normally available within 90 days of the last quarterly financial statement. This means that when the value of Andra AP-fonden's holdings was valued at year-end 2020, the valuation made on 30 September 2020 was mainly used, adjusted for inflows and outflows during the fourth quarter. The Fund has used this valuation method consistently since the start.

An analysis of what impact this time-lag has had since December 2016 shows that Andra AP-fonden's valuation in the official annual accounts has been lower than that in the final reports from the fund managers.

Fair value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The Fund's holdings are therefore divided into three different levels and classified on the basis of which input data are used for the valuation. Andra AP-fonden classifies its assets at fair value according to the following hierarchy.

FAIR VALUE HIERARCHY, SEK MILLION

	31 Dec 2020			
	Level 1	Level 2	Level 3	Total fair value
Equities and participations, listed	162 863	7 017	_	169 880
Equities and participations, non-listed	_	-	80 486	80 486
Bonds and other fixed-income securities	114 973	5 738	1 561	122 272
Derivative assets	-	10 203	_	10 203
Derivative liabilities	-	-2 412	_	-2 412
Financial assets and liabilities, valued at fair value	277 836	20 546	82 047	380 429*

		31 Dec	2019	
	Level 1	Level 2	Level 3	Total fair value
Equities and participations, listed	150 021	11 533	-	161 554
Equities and participations, non-listed	-	-	78 168	78 168
Bonds and other fixed-income securities	115 863	16 616	1 397	133 876
Derivative assets	-	5 734	-	5 734
Derivative liabilities	-	-1 537	-	-1 537
Financial assets and liabilities, valued at fair value	265 884	32 346	79 565	377 795*

- * The difference compared to reported Fund capital refers to items unrelated to financial investments, such as interim items and other assets/liabilities.
- **Level 1:** Financial instruments traded in an active market. The market is considered active if quoted prices are regularly updated more frequently than once a week and if these prices are used without adjustment for closing market prices.
- Level 2: Financial instruments that are traded in a market that is not considered active but where there are quoted prices that are used without adjustment for closing or observable input data that are regularly updated for indirect valuation based on generally accepted models.
- **Level 3:** Financial instruments where significant unobservable inputs are used in valuation, or that cannot otherwise be classified as Level 1 or Level 2.

Level 3 primarily contains the Fund's holdings in private equity funds and non-listed real estate, where the valuation is not based on observable market data. Changes in value in the income statement are recognised primarily under Net result, non-listed equities and participations.

NOTES

Note 17 contd.

CHANGE DURING 2020 IN LEVEL 3, SEK MILLION

	Equities and participations, listed	Equities and participations non-listed	Bonds and other fixed-income securities	Total
Value brought forward January 2020	-	78 168	1 397	79 565
Purchases	-	6 831	271	7 102
Divestments	-	_	_	_
Changes in value*	-	-4 513	-107	-4 620
Reclassifications	-	-	-	-
Total	-	80 486	1 561	82 047

^{*100} per cent of the changes in value are unrealised at year-end.

CHANGE DURING 2019 IN LEVEL 3, SEK MILLION

	Equities and participations, listed	Equities and participations non-listed	Bonds and other fixed-income securities	Total
Value brought forward January 2020	-	65 000	1 024	66 024
Purchases	_	7 312	302	7 614
Divestments	_	-118	_	-118
Changes in value*	_	5 974	71	6 045
Reclassifications	-	-	_	_
Total	-	78 168	1 397	79 565

^{*100} per cent of the changes in value are unrealised at year-end.

Sensitivity analysis, non-listed assets Timberland and farmland

Growth in the value of timberland and farmland real estate is largely determined by the demand for forest and agricultural raw materials. However, the value of forest and agricultural land can vary considerably within the same region and can be correlated to a large extent with the commodity prices. The farmland real estate's operational focus, quality of the land, size of the forest asset, long-term felling plan, infrastructure, topography and various macroeconomic factors are parameters that significantly affect the value of the individual asset.

In the long term, the value of forest and agricultural land is mainly determined by the expected income from forestry and agriculture, combined with interest rate levels. The value of forest and agricultural land tends to rise when interest rates are low and commodity prices are high. Conversely, the value of the land tends to fall as interest rates rise, as the discounting of future income from the use of the land then increases. Higher interest rates reduce the price of forest and agricultural commodities and bring lower income for the operators and, finally, lower the value of the land. However, the grain price needs to fall fairly dramatically over an extended period to have any significant effect on land values.

Private equity funds

The valuations of the individual companies in a private equity fund are determined largely by the following factors:

- Profit growth through increased sales and improved margins. This is achieved, for example, through increased market share, development or innovation of products and services, geographic expansion, operational improvements, acquisitions, consolidation, etc.
- Multiple expansion achieved by the company attaining a higher quality or through the listed market's growth.
- Reduced debt.

Guidelines for valuation of fair value of this type of investment include measurement models which in many cases include valuations in market-listed companies in relevant benchmark groups. Consequently, the companies' valuations are affected by a listed market, but not to the same extent and always with a three-month delay as valuations are performed quarterly. Andra AP-fonden's experience is that most fund managers generally adopt a conservative approach in their valuations, something that is especially apparent in markets that feature rapid and sharp rises in share prices.

Traditional real estate

Although many different factors affect the performance and financial position of real-estate companies, the growth in value of the companies' real estate is the area of risk that has the greatest impact on their profit. The market value of the real estate is affected by changed assumptions about rental and vacancy levels, as well as running costs and dividend yield requirements. These assumptions are based on the economic growth of the markets where the real estate is located. Economic growth is assumed to generate an increase in demand for commercial premises and thus a decrease in vacant leases, with potential for higher market rental rates. The single most important factor is the dividend yield requirement.

For Andra AP-fonden's holdings in traditional real-estate companies, the combined effect on the Fund's share in profits of a planned change in direct yield requirement of \pm 0.25 per cent of the companies' reported pre-tax profit/loss is estimated at SEK \pm 3.3 billion and SEK \pm 3.6 billion respectively.

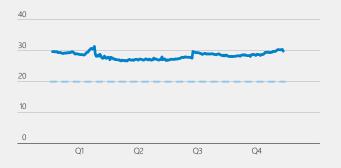
NOTES

NOTE 18 Financial risks

The liquidity risk is mitigated by the 20-per cent rule (external investment regulations for the AP1-AP4 Funds, which states that at least 20 per cent of the Funds' total capital must be invested in securities with a low credit and liquidity risk). Plus, no more than 40 per cent of the fair value of the assets held by the Fund may be invested in illiquid assets. In 2020, the Fund's investment in securities with a low credit and liquidity risk was around 30 per cent and its investment in illiquid assets was about 20 per cent. The liquidity risk on the liability side is very small and consists of derivative liabilities.

For further risk disclosures, see the section on risk management on pages 72 to 77.

LIQUIDITY RISK, %



Percentage of fixed-income securities with low credit and liquidity risk
 20-per cent rule

FINANCIAL ASSETS AND LIABILITIES PRESENTED NET IN THE BALANCE SHEET OR SUBJECT TO OFFSETTING AGREEMENTS

				Amounts not prese in the balance s				
31 Dec 2020	Gross amount	Presented net in the balance sheet	Net amount in the balance sheet	Set-off of financial instruments per agreement	Collateral received/ given	Net amount after set-off	Other*	Total in balance sheet
ASSETS								
Derivative	10 203	-	10 203	-460	-6 541	3 202	-	10 203
Total	10 203	-	10 203	-460	-6 541	3 202	-	10 203
LIABILITIES								
Derivative	2 412	_	2 412	-460	-570	1 382	-	2 412
Total	2 412	-	2 412	-460	-570	1 382	-	2 412

				in the balance s						
31 Dec 2019	Gross amount		oss net in the	oss net in the in the balan	Net amount in the balance sheet	Set-off of financial instruments per agreement	Collateral received/ given	Net amount after set-off	Other*	Total in balance sheet
ASSETS										
Derivative	5 734	_	5 734	-253	-3 880	1 601	_	5 734		
Total	5 734	_	5 734	-253	-3 880	1 601	-	5 734		
LIABILITIES										
Derivative	1 531	_	1 531	-253	-77	1 201	6	1 537		
Total	1 531	_	1 531	-253	-77	1 201	6	1 537		

Amounts not presented not

^{*} Other instruments in the balance sheet that are not subject to agreements that allow set-off.

NOTES

NOTE 19 Related parties

This note is intended to clarify how Andra AP-fonden's financial performance and position have been affected by transactions and accounts outstanding, including commitments, with related parties in compliance with the definitions given in IAS 24.

Those defined as related parties to Andra AP-fonden are companies in which the Fund controls at least 20 per cent of the voting rights (see associated companies, Note 8), as well as the Fund's Board members and executive management team. See Note 5 for information on salaries and remuneration to Andra AP-fonden's Board members and executive management team.

Amounts in SEK million	31 Dec 2020	31 Dec 2019
Related parties, voting rights		
Vasakronan Holding AB, 25 per cent		
Interest income	9	9
Commitment on Vasakronan's behalf to purchase commercial papers in the company up to, on each occasion, a maximum combined cash amount of	4 500	4 500
Chaptwo S.à.r.l., 100 per cent		
Interest income	52	50
Shareholder loans including accrued interest	1 570	1 408
Shareholder contribution/repayment during the year	133	86
Investment commitment	2 015	2 521

The Annual Report for 2020 have been approved by the Board of Directors

Gothenburg, 10 February 2021

Jan RoxendalLin LerpoldMartina Björkman NyqvistChairVice Chair

Hanse Ringström Ole Settergren Johnny Capor

Kristina Mårtensson Åsa Erba Stenhammar Christer Käck

Our audit report was submitted on 10 February 2021

Helena Kaiser de Carolis Authorised Public Accountant Appointed by the Swedish Government Peter Nilsson

Authorised Public Accountant

Appointed by the Swedish Government

Auditor's report

For Andra AP-fonden, Corp. ID no. 857209-0606

Auditor's report on the annual financial statements Opinion

We have audited the annual report of Andra AP-fonden for 2020. The Fund's annual report is found on pages 60 to 97 of this document.

In our opinion, the annual report has been prepared in accordance with the National Pension Insurance Funds Act (2000:192) and gives a true and fair view, in all material respects, of the financial position of Andra AP-fonden as at 31 December 2020 and of its financial performance for the year in accordance with the National Pension Insurance Funds Act.

The Directors' Report is consistent with the other sections of the annual report.

We therefore recommend that the income statement and the balance sheet be adopted.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibility according to these standards is described in more detail in the section, Auditor's responsibilities. We are independent of Andra AP-fonden in accordance with generally accepted auditing standards in Sweden, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information than the annual report

This document also contains other information than the annual report and this is presented on pages 1 to 59 and 98 to 109. The Board of Directors and the CEO are responsible for the other information.

Our opinion on the annual report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual report, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual report or our knowledge otherwise obtained in the audit appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the preparation of the annual report and for being satisfied that it gives a true and fair view in accordance with the National Pension Insurance Funds Act. The Board of Directors and the CEO are also responsible for such internal control as they determine is necessary to enable the preparation of an annual report that is free from material misstatement, whether due to fraud or mistake.

In preparing the annual report, the Board of Directors and the CEO are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors and the CEO either intend to liquidate the Fund, cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the annual report as a whole is free from material misstatement, whether due to fraud or mistake, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or mistake and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual report.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. Furthermore,

- we identify and assess the risks of material misstatement in the annual report, whether due to fraud or mistake, design and perform audit procedures to respond to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from mistake, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal controls.
- we obtain an understanding of the Fund's internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- we evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the CEO.

AUDITOR'S REPORT

- we conclude on the appropriateness of the Board's and the CEO's use of the going concern basis of accounting in the preparation of the annual report and, based on the audit evidence obtained, we also conclude on whether any material uncertainties exist related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the Auditor's Report to the related disclosures in the annual report or, if such disclosures are inadequate, to modify our opinion on the annual report. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- we evaluate the overall presentation, structure and content of the annual report, including the disclosures, and whether the annual report represents the underlying transactions and events in a manner that gives a true and fair view.

We are required to inform the Board of Directors, among other matters, the planned scope, direction and timing of the audit, and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

Report on other legal and regulatory requirements Opinion

In addition to our audit of the annual report, we have also audited the inventory of the assets managed by Andra AP-fonden. We have also audited to determine if there are any observations otherwise on the Board's and the CEO's management of Andra AP-fonden for 2020.

The audit has given no reason to question the correctness of the inventory of the assets or the management otherwise.

Basis for opinion

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities according to this are described in more detail in the section, Auditor's responsibilities. We are independent in relation to the Second AP Fund in accordance with generally accepted auditing standards in Sweden and have otherwise fulfilled our professional ethical responsibilities under these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the financial statements and for the management of the Fund's assets in accordance with the National Pension Insurance Funds Act.

The Board is responsible for Andra AP-fonden's organisation and the management of Andra AP-fonden's affairs. As part of its responsibilities, it shall continuously assess Andra AP-fonden's financial situation and ensure that Andra AP-fonden's organisation is designed to allow accounting processes, fund management and Andra AP-fonden's

financial matters to be controlled in a satisfactory manner. The CEO is responsible for the day-to-day administration according to the Board's guidelines and instructions and for, amongst other things, the implementation of measures necessary to ensure that the Fund's accounting is executed in compliance with the applicable legislation and that the funds of Andra AP-fonden are managed in a satisfactory manner.

Auditor's responsibilities

Our objective regarding the audit of the management of the Fund, and thereby our opinion on the management, is to collect audit evidence to allow us to determine, with a reasonable degree of assurance, whether there are any observations in relation to the Board's and the CEO's management of Andra AP-fonden for the 2020 financial year.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or inadequacies that can result in observations.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgement and maintain professional scepticism throughout the audit. The review of the management of the Fund is based primarily on the audit of the financial accounts. Additional review procedures that are carried out are based on our professional judgement with consideration of risk and materiality. This means that we focus our review on measures, areas and conditions that are significant to the business and where non-compliance and violations would materially affect Andra AP-fonden's situation. We examine and review decisions made, support for decision-making, actions taken and other circumstances that are relevant to our opinion on the Fund's management.

Gothenburg, 10 February 2021

Helena Kaiser de Carolis

Authorised Public Accountant Appointed by the Swedish Government Peter Nilsson

Authorised Public Accountant
Appointed by the Swedish Government

Equities, participations and fixed-income securities

ANDRA AP-FONDEN'S 20 LARGEST SWEDISH SHAREHOLDINGS*

Company name	Share of capital, %	Quantity	Market value, SEK million	Share of voting rights, %	Sector
Hexagon B	0.59	2 172 066	1 629	0.43	IT
Volvo B	0.39	7 918 609	1 535	0.13	Industry
Swedbank A	0.83	9 434 342	1 360	0.83	Finance
SEB A	0.74	15 994 221	1 352	0.74	Finance
Essity	0.63	4 406 310	1 165	0.35	Consumer goods
Investor B	0.23	1 773 754	1 063	0.05	Finance
Hennes & Mauritz B	0.37	6 067 537	1 044	0.18	Consumer goods
Skanska B	1.14	4 793 902	1 005	0.80	Industry
Sandvik	0.39	4 942 264	995	0.39	Industry
Epiroc	0.51	6 231 618	933	0.72	Industry
Sagax B	1.13	5 219 916	885	0.74	Real estate
					Consumer
Evolution Gaming Group	0.46	970 350	810	0.46	discretionary goods
Atlas Copco A	0.15	1 802 397	759	0.21	Industry
Trelleborg B	1.48	4 001 290	730	0.76	Industry
Embracer Group	0.87	3 679 982	723	0.51	Communication
Telia	0.50	20 504 783	696	0.50	Communication
SKF B	0.71	3 225 667	688	0.44	Industry
Husqvarna B	1.07	6 164 191	656	0.39	Consumer goods
Fastighets AB Balder B	0.70	1 308 525	561	0.46	Real estate
Electrolux Professional	4.18	12 006 858	559	3.33	Industry

^{*} The table lists the Fund's 20 largest holdings in Swedish equities in terms of value.

A complete list of the Fund's equity portfolio can be found on the Fund's website.

EQUITIES, PARTICIPATIONS AND FIXED-INCOME SECURITIES

ANDRA AP-FONDEN'S HOLDINGS IN LISTED FUNDS

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Name	Holding, participations	Fair value, SEK million
Generation IM Global Equity Fund Class I 20071201	526 219	3 001
Generation IM Global Equity A Shares LTA20 090401	270 764	1 543
Generation IM Global Equity Fund Class I 20090401	249 905	1 373
Elementum Zephyrus Total Return Cat Bond	123 361	1 286
GAM FCM Cat Bond Inst Initial Series	820 660	1 173
CS Iris S Fund Ltd.	115 143	1 134
AQR Merger Arbitrage Fund	1 021 369	1 075
CVC Credit Partners	687 113	771
Ares Strategic Investment Partners IV	81 966 705	701
AQR Opportunis Convertible Arbitrage Offshore Fund	525 937	629
MG Lion Credt Opp Fund XIV - Series 1 Share Class	2 789	31
Elementum Zephyrus Total Return Cat Bond Class S Dec 2018	323	3
GAM FCM Cat Bond 2020 series 4	1 763	2
GAM FCM Cat Bond 2020 series 1	1 765	2
GAM FCM Cat Bond 2020 series 10	1 820	1
GAM FCM Cat Bond 2020 series 7	1 754	1

ANDRA AP-FONDEN'S 20 LARGEST FOREIGN SHAREHOLDINGS*

Company name	Quantity	Market value, SEK million	Sector
Kweichow Moutai	470 161	1 180	Consumer goods
Nordea Bank	16 056 490	1 079	Finance
AstraZeneca	1 071 512	888	Healthcare
ABB Ltd	3 440 011	788	Industry
Wuliangye Yibin	1 889 095	692	Consumer goods
Jiangsu Hengrui Medicine	4 647 600	651	Healthcare
China Merchants Bank	10 439 334	576	Finance
Ping An Insurance Group Co	4 619 284	505	Finance
Gree Electric Appliances	6 247 738	486	Consumer goods
Kambi	1 042 817	405	Consumer discretionary goods
Luxshare Precision Industry	5 516 534	389	IT
Yunnan Baiyao Group	2 624 417	374	Healthcare
Inner Mongolia Yili Industrial Group	6 673 947	372	Consumer goods
Autoliv	476 895	365	Consumer goods
Thermo Fisher Scientific	83 577	320	Healthcare
Nestlé	324 367	314	Consumer goods
Schneider Electric	262 047	312	Industry
Comcast	712 325	307	Communication
China International Travel Service	831 015	295	Communication
Roche Holding	99 085	284	Healthcare

^{*} The table lists the Fund's 20 largest holdings in foreign equities in terms of value.

A complete list of the Fund's equity portfolio can be found on the Fund's website.

ANDRA AP-FONDEN'S HOLDINGS IN BONDS AND OTHER FIXED-INCOME SECURITIES

Swedish nominal bonds, five largest holdings

Bond	Fair value, SEK million
Stadshypotek AB #1586	1 222
Stadshypotek AB #1587	1 204
SBAB #144	1 062
Stadshypotek AB #1589	958
Stadshypotek AB #1588	841

Global credits, five largest holdings

Bond	Fair value, SEK million	
Exelon	422	
Apple	337	
Brown & Brown	324	
AmerisourceBergen	316	
CVS Health	315	

Global government bonds, five largest holdings

Bond	Fair value, SEK million	
FRANCE O.A.T.	1 057	
Netherlands Government	304	
Intl Devel Assoc	262	
Kingdom of Belgium	258	
Deutschland Rep	239	

Detailed information about Andra AP-fonden's holdings in fixed-income securities is available on the Fund's website.

Fund governance

Fund governance report

MACRO

The Annual Accounts Act and the Swedish Code of Corporate Governance require Swedish listed companies to submit a corporate governance report.

The Code provides guidance on good practice for corporate governance for listed Swedish companies. This Fund governance report has derived inspiration from the Code of Corporate Governance, while also taking into account the special characteristics that apply to the AP Funds.

Like the other AP Funds, Andra AP-fonden is a government agency. However, there is a difference between the AP Funds and other government agencies. The main difference is that the AP funds are independent of the Swedish Government as their operations are almost exclusively governed by law and the Government thus has no provision in law to exercise control over them.

The Board of Directors

The Board of Directors of Andra AP-fonden shall comprise nine Members appointed by the Swedish Government. Two Members are appointed following proposals from organisations that represent employees' interests, and two following proposals from organisations that represent employers' interests.

The Chair and Vice Chair are appointed by the Government, selected from the Members of the Board not put forward by employer or employee organisations.

Each Member shall be appointed on the basis of his/her ability to promote the management of the Fund.

On 28 May 2020, the Government decided on a new Board, appointing Åsa Erba Stenhammar as a new Member to succeed Ulrika Boëthius. To date, the Government has chosen to implement

twelve-month mandate periods for the Board Members, whereby current appointments remain in effect until the Fund's income statement and balance sheet for 2020 have been approved.

The Board has full and undivided responsibility for the operations within the parameters established by the Swedish Parliament for the organisation of the Fund and the management of its assets. In instances where the work of the Board is not regulated by the provisions of the National Pension Insurance Funds Act, it is regulated by the rules of procedure annually adopted by the Board.

Fees and other remuneration paid to the Board Members are determined by the Swedish Government. Annual remuneration is SEK 200 000 to the Chair, SEK 150 000 to the Vice Chair and SEK 100 000 to the other Members of the Board. The Swedish Government has determined that a total of SEK 100 000 may be paid for committee work. Board Members have not received remuneration for their work in the Remuneration Committee. The Chair receives SEK 30 000 and Members receive SEK 25 000 for work in the Risk Committee. The Chair receives SEK 20 000 and Members receive SEK 15 000 for work in the Audit Committee.

Work of the Board

The key duties of the Board of Andra AP-fonden are to set business goals, recruit, monitor and assess the CEO and take decisions concerning organisation-wide strategic issues, including the construction of the Fund's strategic portfolio. Effective control and follow-up procedures are essential to ensure that the Board's decisions are implemented, that the risks in the organisation are managed and that operations are in all other respects conducted in an appropriate manner. The Board held six scheduled meetings during the year plus one extra meeting which was convened to discuss the various

Member of the Board	Remuneration Committee	Risk Committee	Audit Committee	Attendance/total no. of meetings	Comments
Jan Roxendal	Х		Х	7/7	
Lin Lerpold	Х			7/7	
Åsa Erba Stenhammar				4/4	Appointed in May 2020
Ole Settergren				5/7	
Ulrika Boëthius				3/3	Left the Board in May 2020
Christer Käck		Χ		7/7	
Johnny Capor			Х	7/7	
Kristina Mårtensson				7/7	
Martina Björkman Nyqvist				7/7	
Hanse Ringström		Х		7/7	

FUND GOVERNANCE REPORT

consequences caused by the pandemic outbreak. A longer meeting was held in October to discuss various matters, including the Fund's vision for 2023, its business plan, a closer look at the Fund's model for managing land-related risks and an external report on the EU Commission's strategy for the sustainability work in the financial sector. It also discussed strategic issues with a focus on the changes in the strategic portfolio that might be proposed at the Board meeting in December. In addition to the Board Members, Board meetings are attended by the Fund's CEO and the Secretary to the Board. Other Fund employees may also attend in an advisory role as experts or to present a report. The CEO's performance is evaluated once a year. The CEO does not attend this meeting.

Fund targets

The Fund is committed to generating a solid return on invested capital to minimise the consequences arising out of activation of the automatic balancing mechanism. Andra AP-fonden has therefore designed a portfolio that is expected to generate a long-term average annual real return of 4.5 per cent.

Strategic portfolio

A new strategic portfolio has been adopted for 2021.

Discussion about performance, sustainability issues and costs

The Fund's management performance is reviewed at every Board meeting. The Board discusses fundamental sustainability and governance issues at every meeting and also regularly discusses private equity allocations and trends. The Board reviews cost trends on a quarterly basis and regularly assesses the cost efficiency of the Fund. Its annual responsibilities include decisions to approve the year-end accounts, the budget, business plan and strategic portfolio.

Board committees

The Board has set up a Remuneration Committee. The Remuneration Committee consists of the Fund's Chair and Vice Chair. The CEO is normally co-opted to meetings of the Remuneration Committee. The CEO is not present when the Committee determines his/her remuneration.

The Remuneration Committee is a drafting committee for the Board, tasked with considering the level of remuneration for the CEO, establishing guidelines for the remuneration of the Fund's executive management and determining issues related to incentive programmes for Fund employees. Swedish Government guidelines on terms of employment for AP Fund employees are monitored and checked against the Fund's own guidelines and to ensure their correct implementation. Decisions reached by the Remuneration Committee are submitted for consideration by the Board at the next Board meeting.

The Board has set up a Risk Committee. The role of the Risk Committee is to act as an advisory, supervisory and preparatory body for the Board concerning the Fund's risk control and risk management activities. The Risk Committee comprises two Members of the Board. The Fund's CEO and the Head of Performance and Risk Management attend the Risk Committee to present reports or provide information.

The Risk Committee is not authorised to make decisions on behalf of the Board or the Fund, except in those cases where such authority has been delegated by the Board. The responsibility of the Board and its individual directors is in no way limited by the establishment of the Risk Committee or its duties. The Committee meets at least six times a year and performs its duties according to rules of procedure set by the Board on an annual basis. In 2020, the Risk Committee has examined trends in relation to financial and operational risks and has reviewed the Fund's benchmark indices

and alternative investments. The current risk situation and the Fund's return growth were also presented and discussed at each meeting.

The Board has set up an Audit Committee. The role of the Audit Committee is to act as an advisory, supervisory and preparatory body for the Board concerning financial reporting, accounting, internal control, and external and internal auditing. The Audit Committee comprises two Members of the Board. The Fund's CEO, the Head of Business Support and the CFO attend the Audit Committee to present reports or provide information together with the Fund's external and internal auditors.

The Audit Committee is not authorised to make decisions on behalf of the Board or Fund, except in those cases where such authority has been delegated by the Board. The responsibility of the Board and its individual directors is in no way limited by the establishment of the Audit Committee or its duties. The Audit Committee has held five meetings in 2020, one meeting being held jointly with the Board's Risk Committee for the annual review of the Fund's progress on operative risks and compliance reports. During the year, the Committee's main focus has been discussions with the Fund's new internal audit provider and monitoring the internal audit services decided by the Board. Its work also entailed discussions with the Fund's external auditors.

Evaluation of Board performance

The performance of the Board is subject to annual evaluation. The evaluation was carried out by means of a questionnaire in early 2020. The result of the evaluation was presented to the Board and discussed at the meeting in April and at the Board meeting in October. Considerable emphasis is placed on continually developing the work that already functions well, also regarding collaboration with the Fund's executive management.

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FUND GOVERNANCE REPORT

Audit

Andra AP-fonden's auditors are appointed by the Swedish Government. On 28 May 2020, the Government decided to appoint Peter Nilsson and Helena Kaiser de Carolis from PwC as auditors of Andra AP-fonden. PwC is also responsible for the audit of the other AP Funds, and Peter Nilsson has been appointed as coordinating auditor for the AP funds. The Government mandate shall be effective until adoption of the Fund's income statement and balance sheet for 2020.

The auditors present an auditor's report on the findings of their work and deliver a direct verbal report to the Board at least once a year. They also present written reports on the findings of their audits of the annual accounts and the management of the Fund. The auditors also submit a report to the Ministry of Finance once a year.

The services of the auditors include a review of operating activities, the management of the Fund, the annual accounts and the annual report. The auditors express their opinion of the annual accounts and the management of the Fund based on the findings of their audit. The services also involve ascertaining that Andra AP-fonden complies with the generally accepted accounting and valuation principles jointly determined by the AP Funds, and that the annual accounts presented provide a true and fair picture of the organisation.

The work also involved reviewing the Fund's guidelines on remuneration in accordance with Swedish Government guidelines on remuneration to senior executives and employees, and compliance with these. A separate statement has been submitted, see the Fund's website.

Internal control

The Board has ultimate responsibility for the Fund's internal control. In the Fund's risk policy, the Board has established frameworks and guidelines for the overall distribution of responsibilities, risks, risk limits and procedures for monitoring and controlling compliance with these guidelines. The CEO is responsible for ensuring that business is conducted within defined frameworks and investment provisions and that control and monitoring activities are carried out daily. Andra AP-fonden uses the "Three lines of defence" model as a structured process to ensure that its risk management and control systems are effective. Asset Management which, according to the model, is primarily considered to be the first line of defence, has ownership of the risk. It has the delegated responsibility to implement the Fund's decided risk strategy and ensure that the Fund adheres to the defined limits as required by law, determined by the Board or that apply to the Fund's activities through other decisions.

The second line of defence is performed primarily by the Risk Management and Compliance functions. They monitor, control and report the Fund's risks and how the Fund complies with internal and external regulations. The Risk Management Department is organisationally independent of the functions that take active business decisions. The risk control is based on an effective and transparent risk reporting and analysis process. Daily reports are presented to the Fund's executive management, regularly to the Board via reports and at meetings of the Risk Committee and at Board meetings. The Compliance function is responsible for ensuring that the Fund complies with the regulations governing its activities. It monitors changes to applicable regulations and communicates information about these internally, through training, policy statements and

other means. During the year, new policies have been developed with respect to new or changed regulations and several training courses have been completed.

The third line of defence is performed by an external independent internal audit function which evaluates and improves efficiency in a systematic and structured way in the Fund's risk management, internal controls and management processes. Decisions on annual internal audit services are taken by the Board. The findings of the internal audit are reported to the Audit Committee and the Board at the intervals set by the Committee. The internal audit services for 2020 entailed an audit of the Fund's processes and procedures for unlisted investments, with a focus on the due diligence process, and of the functions in the second line of defence and the interface between the first and second lines of defence. Reporting of the completed audit takes place in February 2021.



Jan Roxendal
Chair since 2018, member since
2017. Chair of the Board of Catella
AB and Board Member of Magnolia
Bostad AB. Born 1953.



Lin Lerpold
Vice Chair since 2019. Ph.D. in
Economics. Associate Professor in
Business Administration at Stockholm School of Economics. Board
Member of Stockholm School of
Economics and Stockholm School
of Economics Institute for Research
and Alliance for Research on
Corporate Sustainability. Born 1964.



STRATEGY AND MANAGEMENT

Christer Käck

Member of the Board since 2014. M.Sc.
(Econ). Self-employed. Board Member of Aktie-Ansvar AB and Garantum.

Board Member of Kammarkollegiets Fonddelegation (Fund Delegation of the Swedish Legal, Financial and Administrative Services Agency).

Member of the placement council for the Journalist Association. Born 1953.



Johnny Capor Member of the Board since 2014. Self-employed. Chair of Örby Bostadsutveckling AB, Board Member of APP Properties AB and Smålands fastighetsutveckling AB, etc. Born 1966.



Kristina Mårtensson
Member of the Board since 2015.
M.Sc. (Econ). Administrative Director for the Kommunal trade union.
Born 1966.



Ole SettergrenMember of the Board since 2013.
Head of the Swedish Pensions
Agency's analysis department.
Born 1964.



Åsa Erba StenhammarMember of the Board since 2020.
Chief negotiator for the Swedish
Union of Civil Servants. Born 1972.



Martina Björkman Nyqvist Member of the Board since 2018. Ph.D. in Economics. Associate Professor in Economics at Stockholm School of Economics. Born 1974.



Hanse Ringström

Member of the Board since 2018.

MBA and BA. Self-employed. Chair of Katalysen & Partners AB. Member of the Board of Payer Tec AB, SEB

Ukraina and Sweden China Trade

Council. etc. Born 1948.

Executive Management



Eva Halvarsson

CEO. Employed since 2006. Other current roles: Board Member of Vasakronan AB, Kungliga Operan AB, UN-PRI, WIN WIN Gothenburg Sustainability Award, Engineering Science Academy (IVA), Misum and FinansKompetensCentrum. Born 1962.



Hans Fahlin

Chief Investment Officer. Employed since 2010. Other current roles: Chair of the Centre for Finance (CFF) at Gothenburg School of Business, Economics and Law, Board Member of STIM and Chair of The Institute of Quantitative Research Europe (INQUIRE). Born 1957.



Martin Jonasson

General Counsel. Secretary to the Board. Employed since 2001. Other current roles: Member of the Foundation Friends of the Blind. Born 1964.



Auditors

Helena Kaiser de Carolis Authorised Public Accountant, PwC.

Peter Nilsson

Authorised Public Accountant, PwC.



Ulrika Danielson

Head of Communications and Governance. Employed since 2009. Born 1965.



Henrik Westergård

Head of Risk and Return Analysis. Employed since 2012. Other current roles: Board Member of Varbergs Sparbank. Born 1973.



Ola Eriksson

Head of Business Support. Employed since 2001. Born 1965.

Absolute return on investment

The return generated on a portfolio or portfolios of assets, measured in kronor or per cent, of the original invested amount.

Active management

Asset management actively deviates from the benchmark index in order to create added value.

Active risk/Tracking error

The variation in relative return. Often measured as standard deviation on the relative return. Active risk is calculated using daily data to determine relative return.

ALM study

Asset Liability Modelling. An analytical model used to determine the Fund's strategic portfolio. The study, which is revised on a continual basis, is designed to determine the optimal composition for the different classes of asset under Fund management, to ensure that it satisfies the Fund's long term commitment to the collective requirements of the Swedish national pension system. The judgements based on this analysis shall take into account demographic change as well general economic trends.

Benchmark index

Index based on Andra AP-fonden's strategic portfolio, against which the Fund's management performance is measured.

Brokerage commission

Brokerage commission is the fee paid to the bank when trading in shares.

Credit risk/counterparty risk

Credit risk: Credit risk refers to the risk that an issuer may become insolvent or be given a lower credit rating.

Counterparty risk: Refers to the risk that the other party may be unable to meet its business obligations.

CSA agreement

An annex to the ISDA agreement that regulates how the party with an outstanding debt (unrealised loss) must provide collateral for the debt in the form of liquid funds or securities.

Currency exposure

Currency hedging allows an uncertain future exchange rate between two currencies to be locked in through the use of derivatives. It protects against foreign-exchange risks.

Derivative

A collective name for a form of securities. The most common derivatives are options, futures, warrants and swaps. A characteristic of financial derivatives is that they are linked to events or conditions at one specific point in time in the future.

Duration

A measure of interest risk that yields an asset-relative change in value with an interest adjustment of one percentage unit.

Ex-ante

Projected calculations that look ahead in time.

Ex-post

Calculations from realised data that look back in time.

Fair value

Fair value is defined as the amount for which an asset may be transferred or a debt settled, between parties who are mutually independent and who have a vested interest in completing the transaction. Normally speaking, this means that listed assets are valued at the buying-rate (market value) and that the fair value of non-listed assets is estimated with the help of generally accepted valuation models.

FX forward

A derivative instrument involving a contract to purchase foreign currency at some future date at a predetermined rate of exchange.

Idiosyncratic risk

Risk in individual positions that can be diversified if the number of positions are increased.

Implementation effects

Return contributions that derived from implementation of the strategic portfolio and index switches.

Information ratio

A gauge of risk-adjusted relative return. Measured as relative return, divided by tracking error.

Interest rate swap

A contract between two counterparties, in which one interest flow is exchanged for another. Normally, the undertaking given by one party to pay a fixed rate of interest is exchanged for the other party's undertaking to pay a floating rate of interest.

IPE'

International Private Equity and Venture Capital Valuation Guidelines.

ISDA contract

International Swaps and Derivatives Association. An ISDA contract is a standard contract for the regulation of trading in derivatives between two counterparties.

Liquidity risk

Refers to the risk that securities cannot be converted into cash, because of reduced access to or demand from the market, which either precludes the purchase or sale of such securities, or would require their sale at a lower price.

Market risk

The market risks most relevant to Andra AP-fonden are share-price risk, interest-rate risk and currency risk.

MSCI index

International equity indices managed by Morgan Stanley Capital International.

Operational risk

Refers to the risk that an error or stoppage in operations could lead to economic loss or reduced credibility.

Quantitative management

Asset management that focuses on exposing incorrect market pricing with the help of a mathematical model.

Relative return

Portfolio return compared to return on Fund's strategic portfolio. The return is cleared of commission and operating expenses.

S&P/Standard & Poor's

Standard & Poor's composite index. A cap-weighted share index with over 500 US companies. Selection is based on size, liquidity and industrial sector, among other factors.

Sharpe ratio

A gauge of risk-adjusted return. Measured as the portfolio's absolute return less risk-free interest (SSVX 12 months), divided by the standard deviation on absolute return.

Strategic portfolio

Andra AP-fonden's strategic portfolio is determined annually by the Board of Directors and confirms the Fund's decision on strategic asset allocation.

Systematic risk

Market risk segment that cannot be diversified by increasing the number of positions.

TAA

Tactical Asset Allocation. An active investment strategy that centres on taking advantage of differences in expected performance of various asset classes.

Value-at-Risk, VaR

A measure of risk that indicates the maximum loss, based on a given confidence level, that a portfolio may incur over a given period. VaR is normally calculated at a confidence level of 95 per cent.

Volatility

Volatility refers to the amount the price of a financial asset varies over time. This is normally expressed as a percentage, in terms of the standard deviation.

