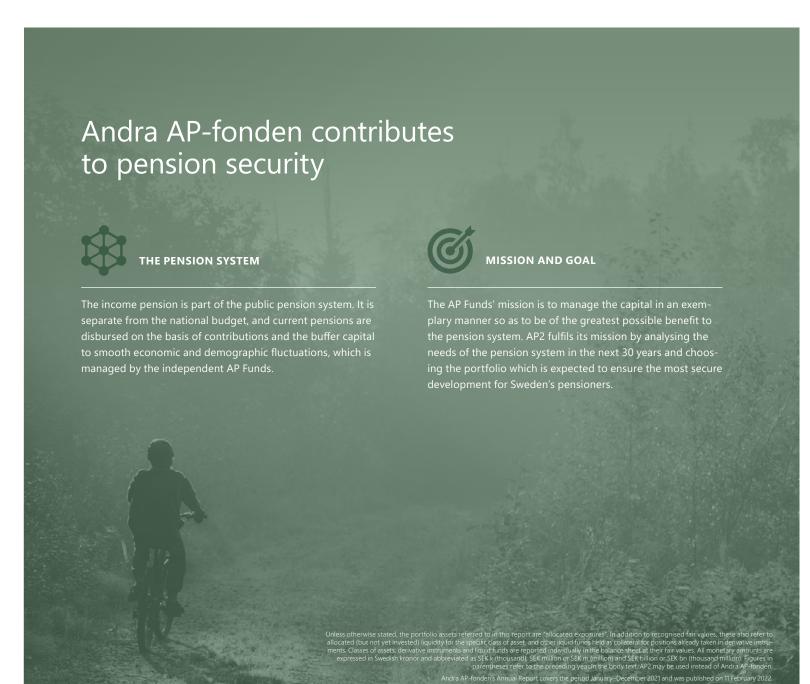


Contents

OVERVIEW The year in brief Key figures CEO's review Targeted value creation	4 5 6 8
MACRO Market	10
MISSION & ORGANISATION The Fund's mission, goal and vision 20 years in perspective Employees Costs IT	15 17 18 20 21
INVESTMENTS Experts in the pension system A sustainable investment strategy Portfolio management Integration of sustainability is a journey	23 27 30 34
SUSTAINABILITY Sustainability Report Climate Respect for human rights Corporate governance Diversity Contributing to the UN's Sustainable Development Goals Sustainability data	37 43 47 48 48 51 55
DIRECTORS' REPORT Result and performance 2021 Net result for the year Portfolio return Relative growth of the listed portfolio Alternative investments Internal governance and control Portfolio risk Currency exposure Costs	58 59 61 62 64 68 70 76
ACCOUNTS AND NOTES Income statement Balance sheet Accounting and valuation principles Notes Auditor's report Equities, participations and fixed-income securities	80 81 82 84 96 98
FUND GOVERNANCE Fund governance report Board of Directors Executive Management Financial definitions	102 105 106 107



The year in brief

441.0

FUND CAPITAL

The Fund capital totalled **SEK 441.0 (386.2) billion** on 31 December 2021.

0.06

OPERATING EXPENSES

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

62.3

PROFIT/LOSS

The profit for the year amounted to **SEK 62.3 (12.8) billion**.

-7.5

NET OUTFLOWS TO THE NATIONAL PENSION SYSTEM

Net outflows to the national pension system of **SEK –7.5 (–7.9) billion.**

0.50

RELATIVE RETURN

The relative return on the Fund's total portfolio, excluding alternative investments and operating expenses, amounted to **0.50 (0.05) per cent**.

16.3

TOTAL RETURN

The return on the total portfolio was **16.3 (3.5) per cent**, including commission expenses and operating expenses. Excluding these costs, the portfolio returned **16.4 (3.7) per cent**.



Development 2001–2021

134

FUND CAPITAL AT THE START, SEK billion -51

NET OUTFLOW, ACCUMULATED SINCE THE START, SEK billion 6.4

AVERAGE ANNUAL RETURN SINCE THE START (including costs), per cent

329

FUND CAPITAL HAS INCREASED BY (including net flow), per cent 13

ASSET CLASSES TODAY, COMPARED TO 3 SINCE THE START 10 000

GENERAL MEETINGS AT WHICH THE FUND HAS VOTED SINCE THE START

Key figures

Five-year overview, financial key ratios

	2021	2020	2019	2018	2017
Fund capital, flows and results, SEK million					
Fund capital	441 045	386 224	381 350	334 828	345 931
Net outflows to the national pension system	-7 528	-7 902	-6 520	-6 773	-7 375
Net result for the year	62 349	12 776	53 042	-4 330	28 784
Return, %					
Return on total portfolio before commission expenses and operating expenses	16.4	3.7	16.1	-1.2	9.1
Return on total portfolio after commission expenses and operating expenses	16.3	3.5	15.9	-1.3	9.0
Annualised return after commission expenses and operating expenses, 5 years	8.5	7.3	7.4	6.9	9.8
Annualised return after commission expenses and operating expenses, 10 years	9.5	7.7	8.4	8.8	6.0
Risk, %					
Standard deviation ex-post, total portfolio ¹	4.2	6.2	6.4	7.2	8.9
Sharpe ratio ex-post, total portfolio	3.9	0.4	4.0	neg	2.9
Expense ratio as a % of managed capital					
Expense ratio, including commission expenses	0.11	0.14	0.15	0.14	0.15
Expense ratio, excluding commission expenses	0.06	0.06	0.07	0.06	0.06
Currency exposure, %	34	34	34	32	33

¹Calculated on a 10-year quarterly return.

Key figures for sustainability

	2021	2020
Andra AP-fonden's listed equity portfolio ¹		
The equities portfolio's absolute emissions of greenhouse gases (Scope 1 and 2) (mn tCO_2e)	1.12	1.40
Carbon intensity relative to ownership share of the companies' market value (tCO ₂ e/SEK million)	5.93	8.54
Carbon intensity relative to ownership share of the company's revenue (tCO ₂ e/SEK million)	9.75	12.76
Carbon intensity, weighted average (tCO ₂ e/SEK million)	9.65	13.84
Market value of the Fund's portfolio covered by CO ₂ e data (SEK billion)	193	164
Business travel		
Proportion of train journeys between Gothenburg and Stockholm, %	98	98
Carbon emissions from:		
Rail, domestic, tonnes of CO ₂ e	0	0
Air, domestic, tonnes of CO ₂ e	0	0
Air, abroad, tonnes of CO ₂ e	0	2
Internal environmental indicators		
Electricity, kWh	64 928	80 000
Renewable electricity, %	100	100
Copying paper, purchased (A4), kg	0	0
Number of printouts	15 666	31 000
Corporate governance		
Number of nomination committees	8	9
Voting at general meetings in Sweden	134	110
Voting at general meetings, foreign	1 092	1 006
Other		
Female staff, %	35	34
Proportion of women in senior positions, %	31	29
Proportion of employees who have undergone training in human rights, %	100	100

¹ Carbon measurements as from and including 2020 are based on a broader universe of carbon data and a refined method of estimating carbon emissions from non-reporting companies. As companies in the portfolio improve and increase their reporting of carbon data, AP2 also revises historical data. There may therefore be deviations in comparison with previous reports.

CEO'S REVIEW

A strong result makes a further contribution to a sustainable pension system

Andra AP-fonden's profit of SEK 62.3 billion is the best ever achieved by the Fund. We have seen positive development within virtually all asset classes. The principal contributors were Swedish and global equities. We can also report a fantastic return on our private equity investments. Even though 2021, like 2020, was affected by Covid-19, the financial markets performed strongly.

AP2 celebrated its 20th anniversary in 2021. Since the start in 2001, we have not only increased the Fund capital by SEK 307 billion, but also developed our sustainability work so that today we are among the world leaders in our field. This has not been achieved overnight, but as an ongoing process that has required the commitment and expertise of all employees. We will never give up, but will persevere by continuing to develop and improve this work, with the aim of contributing not only to sustainable development, but also to a stronger pension system.

The AP Funds combined have generated high returns over several years. Together with a more favourable demographic situation than expected a number of years ago, this means that the income pension system commands a very strong position.

Record-high result

In 2021, AP2 achieved a total return of 16.3 per cent which, after deductions for net outlfows to the pension system amounting to SEK –7.5 billion, increased the Fund capital to SEK 441 billion. The result for 2021 was the best ever, measured in SEK terms.

The relative return, which is the return relative to the benchmark index, was 0.5 per cent. Our alternative investments portfolio performed very well, as our investments in e.g. private equity funds achieved a return of just over 66 per cent.

Sustainability

In the sustainability area, development continued unabated. When the Swedish National Audit Office published its review report on the AP Funds'



CEO'S REVIEW



Andra AP-fonden's profit of SEK 62.3 billion is the best ever achieved by the Fund. We have seen positive development within virtually all asset classes.

sustainability work in 2021 it was pleasing, but not surprising, that it showed that the AP Funds' sustainability work is appropriate in relation to their mission.

The audit also verified that the AP Funds have established processes and integrate sustainability into both investments and corporate governance.

The results of COP26 in Glasgow were not as favourable as hoped, but this was nonetheless still a step forward. It is positive that the world's two largest economies and geopolitical power base, the USA and China, consult with each other on joint commitments. We need all the major countries to be involved, if we are to achieve the climate goals.

At AP2 we have set the ambitious target to have a portfolio in line with the Paris Agreement by 2045. An important step is that, since the end of 2020, the Fund's global equity and credit portfolios are managed in accordance with the criteria for the EU Paris-Aligned Benchmark (PAB). The Fund thus no longer invests in around 250 companies which have income from coal, oil or gas. In 2021, the Fund worked to analyse and develop a PAB index for the Fund's management of Swedish equities.

In 2020, we began investing in sustainable infrastructure and we made further investments in 2021, including in the battery manufacturer, Northvolt, together with AP1, AP3 and AP4. Investments of this type whereby, as representatives of long-term pension capital, we can invest in projects and companies that contribute to the necessary climate transition, are growing in scope and significance for society, and as portfolio weight for us as asset managers.

One of several exciting investments we made this year was in Generate Capital, which owns and operates small-scale distributed sustainable infrastructure, primarily in the energy sector, such as rooftop solar energy systems for schools. We are also involved in the Swedish government's work on the climate transition of the business community, contributing our knowledge of how the necessary transition projects can be structured and financed.

To achieve the right investments, it is important that we continue to enhance our knowledge. During the year, we increased our expertise in a number of energy transition areas and we will continue to prioritise this going forward. We also devote a lot of resources to increasing both our knowledge and our work in the complex human rights areas, and within biodiversity. I am convinced that the development within many sustainability areas will be considerably more rapid than in the last 20 years – which is an absolute necessity!

Flexible ways of working

Before the summer, we began preparations for a new working method, AP2's WoW (Ways of Working). Just as we have investment beliefs to guide our investments, we also have beliefs to guide our way of working. The principle is to be able to continue to operate secure and effective asset management, while taking account of our employees' wish for the flexibility to be able to work from home, weighed against the organisation's need for creativity and sharing of experience, which is supported by personal interaction.

I, and many others too, found it an extremely positive experience to be able to meet in person again after the restrictions were lifted. I can also note that working from home functioned very well, and many staff members, myself included, value the benefits this entails in terms of day-today logistical challenges.

Working in this more flexible way is relatively new for us, and it is important to take a pragmatic approach and learn more about what this entails for both the individual and the organisation.

New opportunities

To summarise, this has been a fantastic year in terms of realised returns, driven by strong market performance and the rapid recovery of many economies.

After almost 12 years, Hans Fahlin has resigned as our chief investment officer. I would like to thank Hans for our excellent cooperation over many year, and wish him all the best for the future. I also look forward to welcoming Erik Kleväng Callert as the Fund's new chief investment officer.

Finally, I would like to thank every member of staff for the great responsibility they have shown and for their fantastic efforts during a very special 2021. At AP2, we already have a lot underway for 2022, so as to further develop and enhance our work of contributing to a stronger pension system and to sustainable development.

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 seeks 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.

Mission from the Swedish Parliament ...

... formulated by the Board of Directors in a **goal**

The Fund then creates a vision ...

... and a **strategy** for the business and the organisation ...

... where the employees are vital to the ability to achieve the goal and fulfil the mission.

An investment strategy to achieve the goal is developed by considering the needs of the **pension system** during the next 30 years.

Analysis of the surrounding world and research ...



... as the basis for simulations in a proprietary ALM model ...

... as the basis for choosing the strategic investment portfolio that best achieves the goal.

Asset management takes place within ...



Swedish equities

Read more on page 30.



Quantitative management

Read more on page 31.



Alternative investments Read more on page 31.



Mefix

Read more on page 32.

... and contribute to the return by making active choices.

The result is a completed mission

Since the start in **2001** ...

SEK 72.7 billion

has been disbursed to pensioners, but since the Fund has generated an annual return of

6.4% (incl. costs)

despite disbursements, the Fund capital has still increased by

billion, ensuring security for future pensioners.



INVESTMENTS

Two decades towards a new macro regime

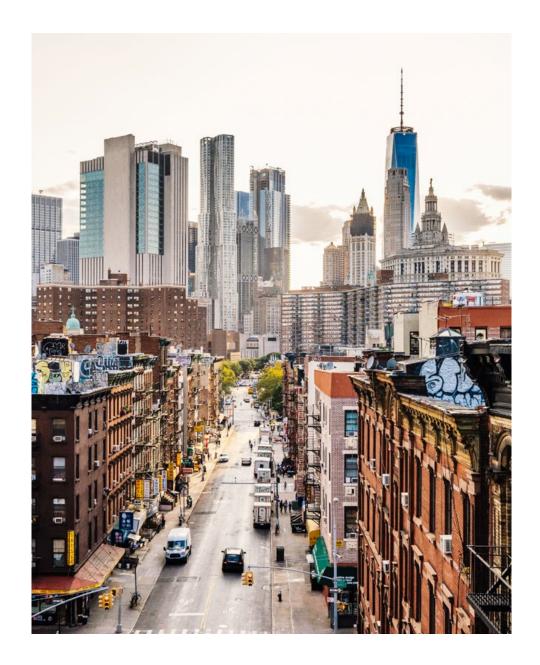
During the two decades of Andra AP-fonden's existence the world has suffered several economic crises and cyclical reversals. Even though the financial markets saw periods of strong volatility, equities' underlying performance was very strong, while interest rate levels gradually declined throughout most of the period. The crisis years brought new knowledge and the Fund sees indications that the world is on the brink of a new macro regime. In this regime, financial policy will be allowed to play a more prominent role, with strong focus on climate-oriented initiatives, while monetary-policy stimulation measures will be procyclical for longer than previously.

Start of the Fund and a burst IT bubble

AP2 was established in 2001, the same year as the recession deepened after the IT bubble burst. For some companies, the recession had dramatic consequences. Ericsson, which the year before accounted for 15 per cent of Swedish exports and had more than 100 000 employees, of whom half in Sweden, was forced to halve its workforce over the following two years. The recession, and rising unemployment in its wake, was not an isolated issue for individual countries, but became a global crisis.

For Swedish pensioners this meant that the Fund's stock-exchange investments during 2001 took place at favourable levels compared to the significantly higher prices just one year before.

This persisted until 2003, when the economic recovery gained momentum. In the USA, further economic stimulus measures were adopted in the form of tax relief and lower interest rates, which helped this country to escape from the recession earlier than in Europe and Sweden. The fact that the EU and Sweden did not provide the same type of fiscal support was due to the experience from the 1990 crisis. That crisis led to tighter budget rules in many countries, particularly within the EU. In Sweden, this entailed a budget target for the public sector, but also a cap on government



MARKET

spending and a balance requirement for local government. In practice, this meant that monetary policy came to play a key role when stimulus packages were required to counter cyclical downturns. Financial policy stimulus measures were deemed to take too long and to be difficult to discontinue when circumstances improved.

In 2004, the recovery became more widespread when global growth really picked up speed and reached its highest level in 20 years. The sound economic development continued for a further two years, but towards the end of 2006 the real estate market, which was the USA's growth locomotive, began to slow down at an alarming rate.

In hindsight it is easy to point to how the upswing was driven by far too lenient credit terms for home buyers. However, the financial markets continued to perform well up to mid-2007, before reality slowly began to catch up. The fixed-income markets took the most dramatic course, and in particular the markets for home loans of dubious quality, called subprime loans. The probability of the US economy entering a recession in 2008 also increased gradually during the autumn.

Concurrently, growth in emerging economies, particularly the Asian economies, seemed to be remarkably unaffected. This would soon change.

The financial crisis

MISSION & ORGANISATION

Both the course of the economy and the financial markets' performance developed dramatically in the autumn of 2008. The events in September are already recorded in economic history. When the American authorities allowed the Lehman Brothers investment bank to go bankrupt on 15 September, this triggered a severe crisis that threatened to lead to the collapse of the global financial system. There was little trust anywhere and the credit markets in principle ceased to function. After the world's largest central banks injected liquidity as a concerted action, the worst issues were resolved and the system could slowly begin to return to normal.

The turbulence that occurred had almost brought the economic cycle to a standstill, however, first in the USA and then in more and more countries. Mounting credit losses meant that the banks could not or would not grant new credit facilities, so that homeowners facing receding home equity values increased their savings and reduced their consumption. Companies were affected by the reduced demand, and unemployment rose sharply.

A few months into 2009, the stimulus measures introduced by central banks and governments began to take effect. By the end of the year, most of the major economies showed weak positive



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THE PANDEMIC AND RECESSION

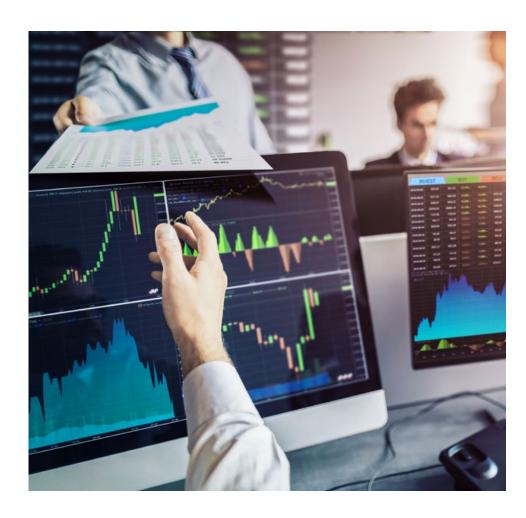
Covid-19 began to spread at the beginning of 2020. As country after country went into lockdown in order to reduce infection rates, and large elements of economic activity more or less came to a stand-still from one day to the next, at record speed the global economy fell into the deepest recession since the second world war.

An economic downturn of this magnitude was unprecedented in modern times. In contrast to a traditional recession, in which industry is usually relatively severely affected, in this case the recession mainly hit the service sector, particularly the travel and hospitality industry.

growth. The recovery proved to be slow, however. After increasing their borrowing when the crisis erupted, households now braked their consumption, while companies focused initially on bolstering their balance sheets. Governments also tightened their budgets, in order to reduce major budget deficits.

Crisis in the euro area

In the euro area, it was critical to resolve the government debt situation in order to continue the recovery. For varying underlying reasons, several countries – Greece, Portugal, Ireland, Spain and Cyprus – had to seek support in the crisis packages devised by the EU and the IMF when market



confidence failed in full or in part. The money was used to fill gaps in depleted government budgets and to support banks that risked insolvency.

However, the crisis support measures were not sufficient to calm the markets. Yields on major countries' government bonds, such as Italy, continued to rise against German yields. Moreover, there was a risk that the rising interest rates might lead to countries being obliged to leave the currency union. In September 2012, Mario Draghi, President of the ECB, managed to calm the markets with the reassurance that the ECB was ready to do "whatever it takes" to preserve the euro. Immediately thereafter, the ECB com-

menced large-scale purchases of government bonds, called quantitative easing, and interest rates in the crisis-stricken countries began to fall.

The recovery was weak, however. Households and companies were cautious and the tight fiscal policy pursued by governments meant that Europe was burdened by low growth for several years. Inflation remained low, and the risk of deflation could not be refuted. The central banks thus continued to stimulate the economy in the ways open to them when interest rates had already fallen to zero.

It was not before 2017 that the central banks changed course and began to reduce the extent of the unprecedented stimulative monetary policy. This took place in an environment in which the global cyclical trends were stronger and sounder than for many years. In 2018, the global economy continued to perform strongly and in several cases unemployment fell to the lowest levels for decades. Yet the year was also affected by geopolitical moves, primarily related to the USA's former President Trump, and the USA introduced import duties. The trade conflict between the USA and China escalated in 2019, while the global economy slowed down, driven by weaker industrial cycles. Several central banks reduced their policy rates and it seemed that the economic cycle could stabilise around the turn of the year.

A new macro regime?

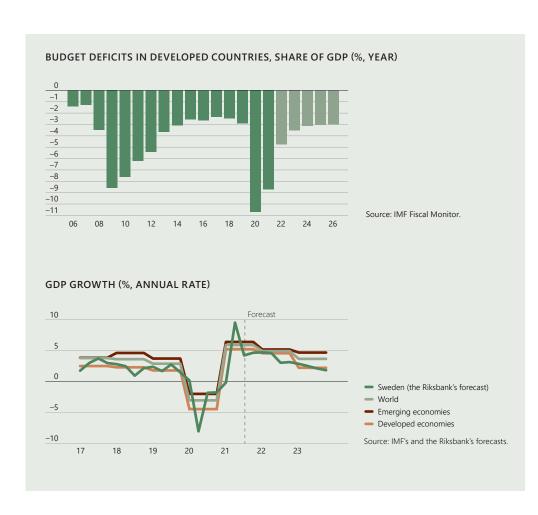
As Covid-19 spread faster and faster across the world, something happened. Based on their experience from previous crises, the central banks quickly increased their stimulus measures. Interest rates were reduced to close to zero in most developed countries, and asset purchases increased liquidity in the banking system. The total extent of the monetary-policy stimulus measures was soon greater than during the financial crisis.

The new aspect during the Covid-19 crisis was the record-high fiscal-policy support measures.

The IMF has calculated that the budget deficit in 2020 was almost 12 per cent of GDP in developed countries. The EU managed to agree on a joint support package in which all member states were included and shared the debt burden. This was something that did not even happen during the euro crisis. This action will probably increase confidence in the EU, but will first of all help the most heavily indebted member states.

This change in approach to fiscal-policy support measures that could be discerned in 2020 and 2021 is to a great extent due to the fact that monetary policy did not suffice. With policy rates close to zero – and sometimes even negative – there was only little scope for monetary policy to have any effect. The shift also took place at a

MARKET



time of very low interest rates, from a historical perspective.

Since the costs of indebtedness are exceptionally low, this creates scope to expand government debt.

The difference between interest rates and a country's GDP growth is a critical factor that is decisive for the sustainability of government finances. For as long as interest rates are below the nominal growth rate, the debt can increase without becoming untenable. In countries with high government debt this tenability is naturally more limited than in countries with low debt, but the equation is the same. This makes it critical to consider how both the level of interest rates and growth develop going forward.

Besides the changed approach to financial policy, climate policy has also become relevant from a macro perspective. Of the EU's recovery fund for EUR 750 billion that was launched during the pandemic, 30 per cent must be used for climate investments. If the world is to achieve the Paris Agreement's goals, this will require enormous investments in the green transition. This is an area that AP2 is following closely and is already investing in. Capital will be in very high demand and the Fund also expects the investments to yield good returns.

Strong recovery

There was a strong cyclical recovery in 2021, with an unprecedented global growth rate. Contributing factors were naturally the rapid development of vaccines and their distribution to several billion people (almost four billion were fully vaccinated at the close of the year), which allowed many economies to be re-opened. Precisely as expected, it took longer to roll out the vaccination campaigns in emerging economies, but even there, a high proportion of people had been vaccinated by the end of 2021, and actually a higher proportion than in certain developed economies. The fiscal-policy stimulus measures were still considerable during 2021 and, according to the IMF, a budget deficit of around 10 per cent of GDP in developed countries is expected in 2022.

In 2021, inflation reached the highest levels for several decades in many countries, primarily due to very high demand for goods and the consequential bottleneck effects. The forecast is that the global growth rate will gear down in 2022, but will significantly exceed the long-term growth trend in developed countries. The recovery of emerging economies is also expected to continue, although Chinese growth, which carries great weight, is expected to be lower than prior to the pandemic. It is assessed that during the year, inflation will gradually recede to more moderate levels.



The mission of Andra AP-fonden is to contribute to long-term stability and security for today's and tomorrow's pensioners. To achieve this, the Fund has specified the mission as a clear objective and also laid down a vision as a guide for its activities.

MISSION & ORGANISATION

The public pension system consists of two elements: income pensions and premium-based pensions. The income pension system is a distribution system whereby the role of the buffer capital is to equalise economic and demographic fluctuations between pension contributions and pension disbursements. The pension disbursements currently exceed the pension contributions, so that the difference is covered by the buffer capital and the return thereon.

If any imbalance between pensions and the ability to pay them should arise in the longer term, the automatic balancing in the system will brake the pension development. The ability to pay is determined by the value of the contribution assets, which reflects the future value of the current pension contributions, and the size of the buffer capital. The contribution assets account for approximately 84 per cent of the total assets in the pension system and increase in value when more people work and their remuneration

increases. The buffer capital accounts for 16 per cent of the assets and its value is increased by the return on the management of the AP Funds.

Mission

The buffer capital is managed by five independent entities, of which AP2 is one. AP2's activities are ultimately regulated by the Act (2000:192) on National Pension Insurance Funds. The mission is to manage the capital in an exemplary manner so as to be of the greatest possible benefit to the pension system. This requires a high return, measured by pension disbursements, with a low level of overall risk.

The mission requires equal treatment of all generations, in compliance with the principle of 'generational neutrality'. Strong performance of the national economic and demographic trends make less stringent demands of a high return in the AP Funds, and vice versa.

Exemplary means that the investments should



O 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 10 per cent of the votes in a single listed company and at most 35 per cent in non-listed private equity companies.
- 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 goal of high returns.

THE FUND'S MISSION, GOAL AND VISION

have the best risk and return, given the needs of the pension system, and that sustainability and responsible ownership must be integral aspects of the fund management. This specifically entails that the fund management must seek to minimise the effects of the automatic balancing, as it is only through this that the AP Funds' returns are linked to pension disbursements.

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 consequences of the automatic balancing for a 30-year horizon by conducting exemplary management of the capital.

To achieve this mission, the Fund should assess the needs of the pension system during this period of time, and then select the sustainable strategic portfolio, based on return and risk, that is assessed to best fulfil these requirements.

A !

Read more about this work in "Pension system experts" on pages 23–25.

In the long term, the strategic portfolio selected is expected to generate an average real annual return of 4.5 per cent, including costs. The return may vary significantly over time, however. 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.

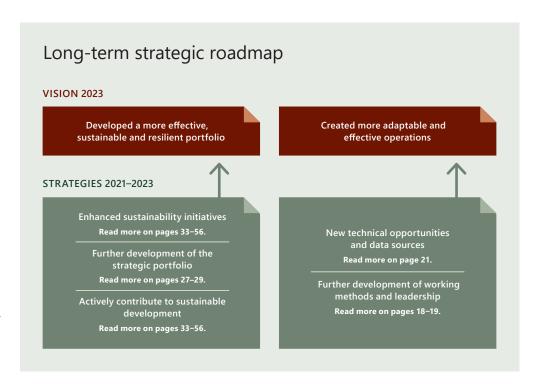
In the past ten years, AP2 has generated a return of 148.5 per cent, corresponding to an average annual return of 9.5 per cent. Adjusted for inflation, this corresponds to a real annual return of 8.3 per cent. The real return in 2021 was 12.0 per cent.

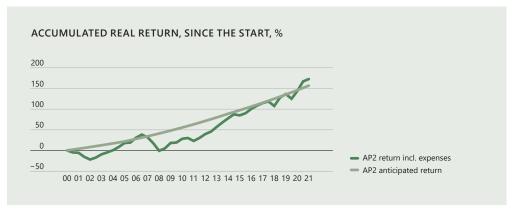
Vision

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 aspects of the Fund's activities.

Long-term strategic roadmap

Continuous improvement is required to achieve the Fund's vision. The Fund therefore works with strategic roadmaps, with the current roadmap extending from 2021 to 2023. It builds on the previous roadmap from 2018, which concerned developing a sustainable new strategic portfolio, and introducing an operations-based and value-creating digital platform and modern working methods. The current roadmap focuses on developing a more effective, sustainable and resilient portfolio and on creating adaptable and effective operations.





We must also do a good job in the next 20 years!

MISSION & ORGANISATION

Since the start in 2001, Andra AP-fonden has progressed from a completely new organisation to be a role model in several areas. Openness to change and continued development of our culture are key aspects.

The public pension funds, called the AP Funds, have existed in Sweden since the 1960s. They achieved their current form in 2000, when it was determined that the five first fund boards would be re-structured as four AP funds, and the second fund, AP2, would be domiciled in Gothenburg. Ola Eriksson, now Head of Business Support and a member of the executive management team, was involved from the start.

"We had money, but no organisation to manage it. There was a CEO and not much more. I myself came from Volvo Treasury and the first task was to implement a new portfolio system," says Ola Eriksson.

Most of the staff recruited by the Fund had experience from financial operations, but not from asset management, since this activity was not very prevalent in Gothenburg.

"There was a real pioneering spirit from the start and this has been an amazing journey ever since. We have done really well and have been good at adjusting to the type of asset management that we undertake. At the start, we were a manager of managers. Today, we predominantly manage the assets internally," says Ola Eriksson.

Eva Halvarsson was appointed CEO in 2006. Besides asset management, leader-



Looking back on these just over 20 years, we initially looked at how others worked, but now the others are often looking at us.

ship and culture issues have been important to her. This entailed ensuring fruitful cooperation, and a clearly defined culture and values shared by everyone working for the Fund. For Eva Halvarsson as a manager, the 2008–2009 financial crisis was a major learning experience.

"When the crisis broke, we in management were perceived as rather 'invisible' by the rest of the organisation. This led to uncertainty among our employees, which was clearly apparent from staff surveys. Since then, we have worked a lot on our communication and co-determination, and become far more transparent," says Eva Halvarsson.

"Since 2010, the Fund's organisation has rested on three pillars: management, risk and business support. This has proved to be a forward-looking adjustment, since recent years have required increasing focus on risk and compliance issues," says Eva Halvarsson.

The Fund's ambition is constant development and improvement. This is apparent within sustainability, for example, since in 2006 the Fund was involved in establishing the Principles for Responsible Investment and last year launched its own internally-developed indices in accordance with the EU Paris-Aligned Benchmark. This is also apparent in terms of business support.



"We have previously been open to digitalisation and have perhaps had a bit of luck with some decisions that were timed correctly. In terms of infrastructure, we were therefore well-prepared for working from home when the pandemic broke out. The fact that this worked well is also due to our culture of active commitment and sharing responsibility," says Ola Eriksson.

He believes that the changed working methods made necessary by the pandemic will affect the organisation in the same way as the financial crisis. Eva Halvarsson is convinced that building a culture in the good times is very important when things get tough.

"When the organisation is tested in difficult times, it is too late to start working on leadership and values," says Eva Halvarsson. Since the organisational changes in 2010, the greatest adjustments have taken place on the asset management side, where the Fund has increased the ratio of internally-managed capital and also gradually integrated sustainability perspectives.

"Looking back on these just over 20 years, we initially looked at how others worked, but now the others are often looking at us. I am really proud that I could contribute to building up our organisation to where it is today. Many of us have been on board for a long time and some have gained new areas of work along the way. With regard to Swedish pensioners, I can note that we have worked well during these first 20 years, which we must continue to do for the next 20 years," says Eva Halvarsson.

Andra AP-fonden's ability to recruit and develop employees who contribute to the organisation is crucial to the Fund's ability to achieve its long-term objectives. There is therefore a strong focus on building a sound internal culture and good leadership.

AP2 is an archetypal knowledge-driven organisation with the important mission to manage part of the buffer capital in the public pension system. This makes high demands of the employees' expertise and good judgement. It is also the Fund's vision to conduct world-class management, which also requires drive, commitment and creativity. For the organisation to function smoothly, the Fund must motivate all employees to achieve good results.

MACRO

Importance of culture building

To lay the right foundation, the Fund gives great weight to the internal culture, defined by personal responsibility within the framework of a strong team spirit. The basis for internal culture building is good leadership. The Fund works according to the Developing Leadership model, created by the Swedish Defence University around the turn of the millennium. Being a manager and leader is a continuous learning process. During the autumn, all

managers looked back on the Developing Leadership model, with added focus on the development of communicative leadership.

The model gives great weight to managers being role models and acting according to a visible value base, which in the Fund's case is built on the values of long-term value creation, responsible, respect and continuous improvement. The aim is to develop employees' inner drive and for the organisation to pursue the same aim. The keys to this work are ensuring that employees have the right expertise, and that the organisation is transparent and gives considerable autonomy to both managers and employees.

Continuous competence development

Continuous competence development is an important element of the Fund's human relations and all employees are offered continuous development within their areas of expertise. There is also considerable internal sharing of expertise,



among other things by the Fund's departments regularly inviting colleagues from other departments to hear about and offer input on ongoing projects. The Fund's working environment is characterised by team spirit and great respect for each other's expertise.

As one of northern Europe's largest asset managers, AP2 also shares expertise externally with investor colleagues in both Sweden and abroad. The Fund is also involved in current academic research, conducts its own research and attends

conferences where current results are presented and discussed.

Transparency

Since the Fund considers transparency to be vitally important, great weight is given to keeping all employees continuously informed, including at weekly meetings of the entire Fund's employees. This clear transparency facilitates information for managers and employees, so that through their decisions they can take responsibility for the

EMPLOYEES

Fund's performance. Personal dedication and a sense of responsibility for the Fund's mission are encouraged by working with employeeship and self-leadership.

Recruitment

Being a global manager of several different asset classes creates many specialist roles with the opportunity for continuous development during a long career with the Fund. In the first instance, internal recruitment is practised, which is supported and encouraged by sharing knowledge internally. For many years, the Fund has also collaborated with the School of Economics, Business and Law at the University of Gothenburg, and with Chalmers University of Technology, to offer students opportunities for project appointments, internships and temporary summer positions. This has proved to be a good basis for recruitment of future employees.

In all recruitment processes, applicants must have the right expertise and experience. Significant weight is also given to finding suitable candidates who can develop the Fund's culture, in fruitful cooperation with their colleagues. This is ensured by a recruitment process whereby candidates have several opportunities to meet various different people, besides the recruiting manager and HR manager.



Diversity

MISSION & ORGANISATION

AP2 sees strength in diversity and in an inclusive approach, and wishes to be an attractive employer for anyone with the right expertise, irrespective of age, ethnic background or gender. The Fund offers flexible working hours, the freedom to take responsibility for one's own work, and paid parental leave, so that everyone can achieve a good work-life balance. Three of the Fund's employees took parental leave during 2021.

As an element of its diversity work, the Fund supports the Mitt Liv (My Life) 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 opportunity to serve as mentors for academics with foreign backgrounds who are seeking employment that requires their professional qualifications.

During the year, AP2 held two lectures on diversity and inclusion for all employees.

Health protection

The Fund conducts systematic occupational health and safety work in order to minimise the risk of illhealth. This has been particularly important during the pandemic, which for long periods required employees to work from home. During this period, the Fund's managers were in close contact with their employees, to prevent adverse mental and physical health effects. At the beginning of October 2021, AP2 introduced a flexible new working method, with the opportunity to either work from home or at the office. This will be assessed after a six-month testing period based on a number of criteria.

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

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 works actively on such issues as gender equality, diversity, working environment and anti-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.

Remuneration

The Fund 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 and adheres to the Swedish Government's guidelines pertaining to terms of employment as applied at the AP Funds All employees are subject to the terms of the collective agreement between The Employers' Organisation of the Swedish Banking Institutions (BAO) and Akavia/Swedish Confederation of Professional Associations (SACO).



Read more about remuneration on page 87.

In 2021, Andra AP-fonden reduced the assets management costs to historically low levels. This outcome is the result of a long-term process with special focus on external costs. The work of maintaining or further reducing the cost level has commenced with activities that are expected to take effect during 2022.

MISSION & ORGANISATION

Since 2004, AP2 has used an established method, developed by CEM (Cost Effectiveness Measurement Inc.), to compare its costs with those of other global asset managers on a fair and transparent basis. The method supports comparison that takes account of several factors with a strong impact on the overall costs of managing a fund, such as 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.

The outcome is then compared with a global group of asset managers of an equivalent size and portfolio composition. CEM's analysis for 2020 showed, as in previous years, that by a good margin AP2's cost level is lower than that of the benchmark group. This can mainly be attributed

to cost-effective internal management and significantly less use of external management.

Collaboration between the AP Funds' administrative functions

In 2016, AP1, AP2, AP3 and AP4 established a collaboration council to improve opportunities for collaboration within all areas outside investment activities. AP7, which is the state pre-selection option in the premium pension system, has been part of this collaboration since 2018.

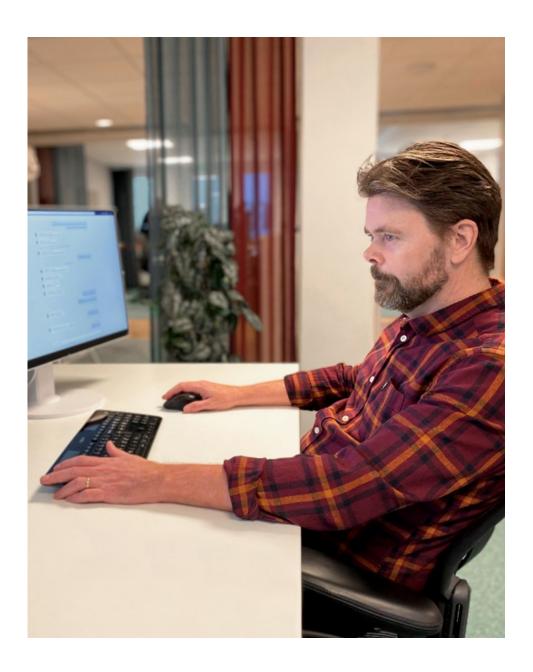
AP1, AP2, AP3 and AP4 belong to the income pension system and by law have the overall management goal of managing the fund assets for the greatest possible benefit of the pension system. Four funds with the same mission is due to a wish to spread risk by encouraging different management models. The government encour-



ages cooperation, however, if this can increase cost effectiveness without affecting the funds' independence, or reducing the diversification between their different management models.

The ongoing work of the collaboration groups continued in 2021, primarily as virtual meetings. Besides the regular joint meetings, much of the

collaboration takes place via direct contact between employees of the different funds. Examples of areas in which the funds collaborated during the year include procurement, innovation and new technology, as well as information security.



Work on a new platform commenced in 2021

In 2021, the IT department headed the work of migrating data and functionality in the Fund's old data warehouse to a new facility with upgraded technology. The work in the IT area was also focused on security and flexibility.

The aim of the migration project was to identify opportunities for cost savings via licence costs, and to increase efficiency by implementing new data sources more quickly. This was also important in order to utilise the new development achieved by suppliers relevant for the Fund.

Another significant aspect of the project was to build up greater internal expertise. Staff from several departments, such as asset management, risk and return analysis, business development and business control were engaged in this work. The project was completed at the end of the year.

Greater flexibility

In 2021, the IT department worked hard on improving conditions to work flexibly from home or at the office. To hold meetings successfully with participants from several locations, based at the office, several conference rooms were equipped with modern video conferencing equipment.

Work on the Fund's modular digital platform also continued, with a strong focus on being able to work efficiently from any geographical location. The early introduction of VDI (Virtual Desktop Infrastructure), where employees' desktop environments lie on a central server, has played a great role in ensuring transparent working from home and maintaining the Fund's resilience to cyber attacks at both office and home workplaces.

Ongoing security measures

There is continued strong focus on IT security, and the Fund monitors the cyber threats and actual attacks around the world. From this perspective, the Fund's IT infrastructure, comprising networks, applications and information sources, is continuously reviewed. This work is supported by the collaboration with the other AP Funds, by exchanging information and experience, and coordination of procurement.



MACRO

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 has therefore built up expertise in the development and needs of the income pension system.

MISSION & ORGANISATION

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

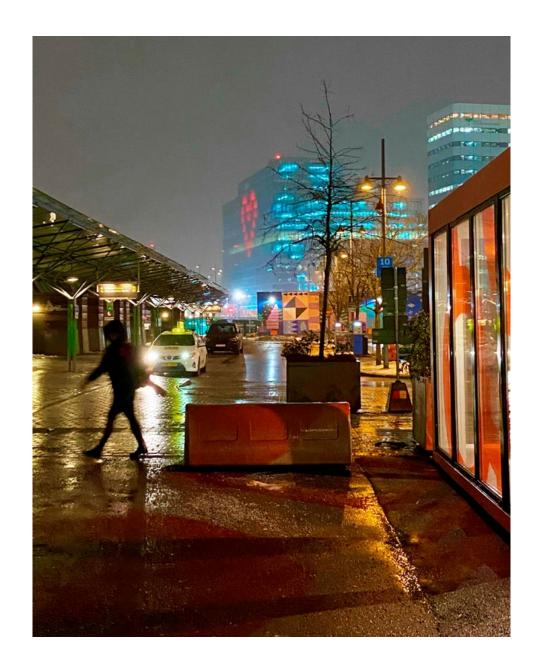
Simulations reveal the system's requirements

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 assets at an adequate rate, based on the system's requirements.

Since a high expected return goes hand in hand with high risk, the expected return may not be so high that the associated risk increases the probability of the brake being activated. See the illustrations on page 24 for a graphic overview.

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 long-term portfolio composition that is expected to entail the lowest future pension losses, due to the brake, is created.

Besides the demographic development, which carries significant weight, 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 risk, and the mutual correlation between asset classes and



EXPERTS IN THE PENSION SYSTEM

economic aspects, are generally taken into consideration. The Fund also includes climate risk in the expected economic consequences of inadequate global measures to counter climate change.



Read more in the investment strategy section on pages 27–29.

The Fund annually reviews the assumptions on which the ALM analysis is based. The assessment is based on the academic research in the area.

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.

Demographics 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 2021, AP2 has had a net outflow of

around SEK 58 billion to the pension system, and the net outflow from the buffer funds is expected to continue for many years to come.

The Fund's simulations apply a, for the pension system, pessimistic scenario to the demographic development. This entails a lower birth rate, longer life expectancy, low net immigration and a future in which pension contributions from a relatively smaller working population have to finance pension disbursements to a higher number of pen-

ALM model

The management goal is to reduce the risk that the brake is activated, which would result in lower pension disbursements. For as long as the assets in the pension system exceed the liabilities, the brake will not be activated.



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.



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 was activated in several cases. This 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.



EXPERTS IN THE PENSION SYSTEM

sioners. This scenario justifies a long-term portfolio with relatively high expected returns and risks.

The pessimistic scenario is chosen because, in the first instance, good returns for the buffer funds are required to reduce the risk of the brake being activated. In more optimistic scenarios, the returns for the buffer funds do not play such a great role. If a more optimistic scenario materialises, the negative consequences of choosing a portfolio adapted to the pessimistic scenario are assessed to be small On the other hand, the negative consequences related to the opposite choice can be considerable.

Climate change is considered in the ALM analysis

For AP2, which has a long-term investment strategy, it is important to include the effects of long-term climate change in investment decisions. Since climate change has an impact on the conditions for all forms of human activity, the effects on countries, individual industries and economic development can be assumed to be significant. The Fund has therefore begun to take these risks into account in the ALM analysis and the assessment is that the return will be affected negatively if the world's countries do not succeed in achieving the goal under the Paris Agreement to limit the global temperature increase to well below 2°C.

Brighter future

Since the first version of the Fund's ALM model was launched in 2004, the picture of the pension system's future development has changed significantly. 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 much-improved financial position up to 2050.

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.

Two demographic factors also contributed: the population increase as a consequence of recent years' immigration to Sweden, and the decision by the Swedish Parliament in October 2019 to raise the pension age by introducing a target age linking the lowest income-based pension age to the average life expectancy.

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 65.0 years. All other things being equal, a higher pension age means that more contributions are paid into the system, and that the financial position improves.



The Fund includes the effects of a higher pension age in its choice of long-term portfolio. These effects are difficult to assess, but potentially considerable.

Ongoing analysis

Looking ahead, large cohorts of pensioners will continue to present a challenge, even though recent years' strong population growth 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 sce-

nario, in particular a higher pension age, for the choice of long-term portfolio. A stronger position for the pension system entails, all other things being equal, that the Fund can choose a portfolio with lower expected returns and risk, and still contribute to strong pension development for current and future pensioners. In the longer term, the demographic development may entail new strains on the pension system. For example, a large cohort of new pensioners can be expected towards the end of the Fund's chosen 30-year horizon.

20 YEARS IN PERSPECTIVE

Much has changed during the past 12 years

After more than 12 years as chief investment officer, Hans Fahlin is leaving Andra AP-fonden for a life without operative roles and commuting, but with more focus on tour skating and wind surfing. Looking back on his career at the Fund, Hans Fahlin can note that many changes have taken place.

Hans Fahlin came to AP2 in 2010 after many years at Alfred Berg and ABN Amro, where he among other things worked with ALM issues and quantum management. Asked to describe how the Fund's asset management has developed during his term, Hans Fahlin summarises this as three areas: diversification, internalisation and sustainability.

"When I joined the Fund, its diversification journey had already begun. As a consequence of the financial crisis, there was a wish to reduce exposure to major developed equity and bond markets. We've continued that journey over the years," says Hans Fahlin.

The Fund has increased its exposure to emerging markets in terms of both equities and bonds, particularly in China, increased its holdings in alternative investments and, for example, established co-risk companies with other investors for real estate in Europe and the USA, begun to invest in real estate in emerging markets, and commenced investment in farmland, timberland and sustainable infrastructure. Exposure to small companies and cleantech companies in the Swedish portfolio has also increased. This list can be longer.

"Diversification has increased in terms of both geography and asset classes. The ratio of non-listed assets is now considerable. Our assessments of the portfolio,

compared to a far simpler portfolio, show that we have a better return in relation to risk," says Hans Fahlin.

The second area, internalisation, was based on the quantum team that existed when Hans Fahlin joined the Fund. The main reason for insourcing asset management was cost savings.

"The journey is more or less completed now, and there are only a few remaining cases where asset management can be in breach of international conventions, on the recommendation of the AP Fund's joint Council on Ethics. Already then, there was an awareness in the Fund's Swedish equity management that sustainability played a role in the creation of future products and how consumers perceived the companies. This was part of the investment process," says Hans Fahlin.

Since then, the area has grown in terms of both significance and acceptance, not

Previously, many people saw sustainability factors and high returns as complete opposites in some respects. But thanks to the climate issue, it is clear that the reverse applies.

insourced. Even though the main justification was cost issues, there are also positive side effects from maintaining a high level of expertise at the Fund, giving us opportunities to invest in more expensive assets such as Chinese A-shares," says Hans Fahlin.

The third area is sustainability, which is now fully integrated in all asset management. This was not the case in 2010.

"When I started, we excluded companies

only for the Fund, but also in the financial world in general. Hans Fahlin believes that the climate issue has changed the debate and approach.

"Previously, many people saw sustainability factors and high returns as complete opposites in some respects. But thanks to the climate issue, it is clear that the reverse applies. It is furthermore part of the information we need to have to achieve good results.



AP2 already began to review financial climate risks back in 2013 and since then has continued to develop the method for more issues related to human rights and biodiversity. The AP Funds take the lead in incorporating sustainability perspectives in investment decisions, but everything can always be improved, according to Hans Fahlin.

"The Fund's vision is World-class management. This is a way of approaching and thinking about the Fund's activities. A constant endeavour to do what we do even better. The fact that we have managed to create a global corporate bond index with factor exposure compatible with the Paris-Aligned Benchmark is a really good example of this," says Hans Fahlin.

As a manager, together with his team he has given a lot of thought to the right conduct to create a successful organisation.

Autonomy for employees, a united approach

to a common goal and shared values, and a constant endeavour to be really good at what we do were key themes. This creates motivation, job satisfaction and dedication.

"Nothing will happen unless employees agree on a common purpose and feel that what they achieve is meaningful, with development potential. I myself have really enjoyed my years here. It's been a privilege to work with all the employees and all the different interesting and skilful people that you meet in my role," Hans Fahlin concludes.



AP2'S VISION

The Fund's vision is World-class management. This is a way of approaching and thinking about the Fund's activities. A constant endeavour to do what the Fund does even better.

A sustainable investment strategy

MISSION & ORGANISATION

Andra AP-fonden's asset management is devoted to sustainability and is geared to the needs of the pension system.

The Fund's investment strategy is that, on the basis of an assessment of the needs of the pension system, the Fund capital is invested in an effective portfolio that integrates sustainability and promotes sustainable development. Analysis of these needs and which portfolio can best fulfil them is performed with the help of the ALM model, on which there is more information on pages 23–25.

An effective portfolio is a portfolio that maximises the expected return for each given level of risk. The returns on equivalent types of assets are not perfectly correlated. This can entail, for example, in extreme cases, that returns on bonds can tend to be negative when returns on equities are positive, and vice versa. A portfolio's overall risk can therefore be reduced by diversification, which means that the Fund capital is spread across several different types of assets and asset classes.

Assessments of expected future returns and risk, and the mutual correlation between asset classes, are important input values in the ALM model to identify the long-term strategic portfolio of greatest benefit to the pension system.

AP2's view of the most important success factors for the investment strategy is summarised in the Fund's investment beliefs, which are presented in the box below.

Systematic and active risk-taking

The Fund achieves the expected return required to meet the needs of the pension system by, in the first instance, exposing the Fund capital to various market risks, also 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 sustainable infrastructure.

The next step is careful selection of which benchmark index represents the respective asset class. AP2 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 are based on a selection of other factors besides market value and which give better exposure to various systematic risk premiums. This entails, among other things, that



INVESTMENT BELIEFS

- **1.** Thorough analysis of the pension system is key to the choice of strategy.
- 2. Systematic risk-taking is required.
- 3. Diversification reduces risk.
- 4. Active management creates added value.
- 5. Sustainability pays off.
- Climate change is a systemic risk.

- Long-term mandate presents special opportunities.
- **8.** People and culture are critical success factors.
- 9. Stable processes are essential for good results.
- **10.** High level of cost-effectiveness leads to improved results.

A SUSTAINABLE INVESTMENT STRATEGY

equities in small companies and in low-valued companies have greater weight in the Fund's indices than in traditional indices. Key figures related to sustainability also determine the design of many of the Fund's indices.

The strategic portfolio selected by AP2 is expected to give an average annual real rate of return of 4.0 per cent during the coming 30-year period. In the shorter term, with the current low interest rate levels, a lower return may be expected, however.

Besides the return on the long-term systematic risk-taking, additional added value is generated by active management, which means investment decisions within each asset class that deviates from the selected benchmark index. Through

active management, the Fund's objective is to add 0.5 percentage points to the annual return over time.

Long-term diversification

AP2's long-term mission is the basis for sustainable risk-taking. Since risk-taking must 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.

ANDRA AP-FONDEN'S STRATEGIC PORTFOLIO 2021 (% OF THE FUND'S CAPITAL) ■ Swedish equities, 9,0% Real estate. 15.0% ■ Equities developed markets, 22,0% ■ Private equity, 6,5% ■ Equities emerging markets, **10,5%** ■ Sustainable infrastructure, **0,5%** Fixed-income securities, 20.5% ■ Private debt. 0.5% Fixed-income securities Alternative risk premiums, 1.5% green bonds, 3,0% China A-shares, 2,5% ■ Fixed-income securities ■ Chinese government bonds, 1,0% emerging markets, 7,5%

Importance of cost effectiveness

To ensure the highest possible return after costs, in relation to the risk taken, the Fund has a strong focus on cost-effective management. Several asset classes, totalling 82 per cent of the capital, are therefore managed internally. Resources are concentrated on areas which the Fund considers to have the greatest chance of success, based on the market, experience, competence and processes.

The Fund also uses external managers for the asset classes and mandates where the Fund does not have the internal resources required or where the external managers add value to the Fund's own management. Most of this 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.

Integration of sustainability

Two of the Fund's investment beliefs concern sustainability, and more specifically that sustainability pays off and that climate change holds a special position within the sustainability framework, and constitutes a systemic risk. Since sustainability is important for the Fund's return it plays a key role in the strategy and for investment decisions at all levels.

IN-HOUSE PORTFOLIO MANAGEMENT

The following asset classes are managed in-house:

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

EXTERNAL PORTFOLIO MANAGEMENT

During 2021, AP2 employed external management within the following areas:

- Developed markets, equities
- Alternative investments (private equity funds, traditional real estate, timberland and farmland, sustainable infrastructure, Chinese A-shares, private debt and parts of the portfolio with alternative risk premiums).

A SUSTAINABLE INVESTMENT STRATEGY

One principle is that sustainability must be integrated in all investment processes, from ALM analysis and selection of strategic portfolio, to active management decisions at securities level. Some of the overall asset classes included in the strategic portfolio are also directly linked to the ambition of contributing to sustainable development.

Among other things, for some time the Fund has had a strategic allocation to green bonds. Today, this amounts to 3.0 procent, equivalent to approximately SEK 13 billion. Another example is the Fund's strategic target allocation of 2.0 per cent for sustainable infrastructure, i.e. infrastructure that contributes to sustainable development in line with the Paris Agreement. When the target allocation is achieved, the Fund will determine a new required level.

Sustainability is also integrated in the strategic portfolio via the indices representing respective asset classes. In recent years, AP2 has given great weight to developing and implementing multifactor indices for global equities and corporate bonds that are in accordance with the criteria for the EU Paris-Aligned Benchmark. Read more on page 43. The Fund's management of bonds in emerging countries is also based on indices with sustainability characteristics.

For alternative, non-listed, asset classes, indices are not the starting point for the portfolio com-

position. 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 that are engaged.

Within active 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 an overall level, the Fund also has processes in place to handle individual companies or other players from a sustainability perspective. This includes processes to identify and conduct dialogue with companies for which risks related to human rights 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 also 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 work adds value. The strategic portfolio's

actual return and risk are compared with a far simpler basic portfolio created with the same ALM analysis. With considerably fewer asset classes to choose between, the basic portfolio comprises 75 per cent global equities and 25 per cent Swedish bonds.

In 2021, the assessment, performed in October each year, showed that in the last 13 years the strategic portfolio has achieved a return in line with the basic portfolio, while the risk has been lower.

BENCHMARK INDEX FOR THE LISTED STRATEGIC PORTFOLIO, 31 DECEMBER 2021

	Index
Quities Sweden Developed markets Emerging markets	SEW: "Equal Weighted Sweden Index"
	CSRX: "Carnegie Small Cap Return Index"
Developed markets	MSCI World ¹ , Developed Markets Multifactor PAB
Emerging markets	Emerging Markets Multifactor PAB
Swedish nominal fixed-income	SHB Swedish All Bond ¹
Foreign government bonds	Bloomberg Barclays Global Government Index ¹
Global credit bonds	Global Credit Multifactor PAB
Global green bonds	Bloomberg Barclays MSCI Green Bond Index ¹
Government bonds in emerging markets	JP Morgan ESG EMBI Global Diversified 1,2, JP Morgan GBI EM Global Diversified 1,2
	Developed markets Emerging markets Swedish nominal fixed-income Foreign government bonds Global credit bonds Global green bonds

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.

Integration of sustainability in the asset management process

Swedish equities

WHAT WE DO

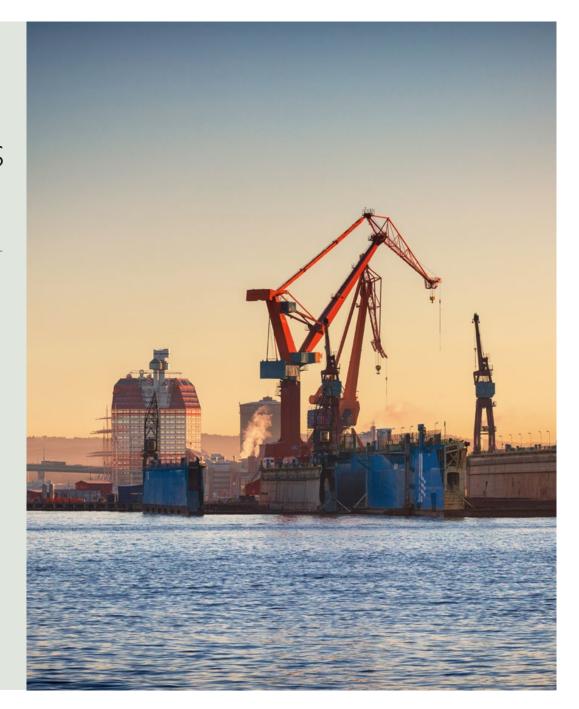
The Fund's management of Swedish equities is based on three mandates: one for large companies that has an investment universe of around 60 companies, one for small companies that has a universe of around 270 companies, and one mandate that invests in cleantech companies. The asset management team are stockpickers and base their selection on a separate fundamental analysis. This entails close analysis of a company's accounts, business model, markets and future outlook. In the analysis of companies, consideration is also given to sustainability

aspects and how they can affect both the company's valuation and revenue in the long term. When the Fund's view of an equity deviates from the market's view, this is expressed by overweighting or underweighting the equity compared 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 281.1 percentage points in the last ten years.

O FOCUS 2021

- Continued development of the cleantech portfolio through investment in more companies and increased investment in a few existing holdings.
- During the year a large number of new companies became listed and the Fund spent a lot of
- time on learning about and meeting many of the companies that were listed during 2021.
- Assessment of how a Paris-Aligned Benchmark (PAB) can be implemented in the Swedish indices.



PORTFOLIO MANAGEMENT

Quantitative management

WHAT WE DO

Quantitative management entails using statistical analysis to identify characteristics of companies or states, called factors, that either individually, or together with others, can indicate future returns. This is part of AP2's active management and takes place in the areas of foreign equities, global credits, Swedish fixedincome securities, government bonds in emerging markets and Chinese government bonds. Within all asset classes the Fund applies sustainability factors to active management, which creates good returns for pensioners and promotes sustainable development.

For many years, AP2 has worked actively to integrate sustainability factors in its equity management. In 2018, new internally-developed multi-factor indices with sustainability characteristics were implemented for the foreign shareholdings, and these were further developed in 2019. The sustainability factors to which the indices had 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 2020, the Fund developed multi-factor indices for global equities and corporate bonds, in line with the EU's Paris-Aligned Benchmark (PAB). These mandates concern almost half of the Fund's portfolio.

In its management of emerging-market bonds, for some 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.

O FOCUS 2021

- Expanded the types of companies included in the PAB index for corporate bonds to include companies with somewhat lower credit quality and therefore higher expected returns.
- Improved the alpha model for government bonds issued in dollars in emerging markets.
- Worked to develop a PAB index for Swedish equities.

Alternative investments

WHAT WE DO

Within the alternative investments department, the Fund has gathered investments in non-listed real estate (including timberland and farmland real estate), private equity funds, sustainable infrastructure, external global equity mandates, alternative risk premiums, private debt and equity investments in the local Chinese stock market (Chinese A-shares). Most of the asset classes are defined as illiquid assets, which means that there is no established market on which they are traded in large volumes on a daily basis. The ongoing management is undertaken by partly-owned companies or external managers and the department's work thus concerns assessing their processes and



following up on their reporting. This takes place in different ways, depending on the asset class involved.

Sustainability work is an important aspect of the due diligence process for new asset managers, and for the ongoing activities. For this department, sustainability work also concerns being involved in developing the financial sector, and thereby helping managers to better handle sustainability issues.

FOCUS 2021

- Together with managers of timberland and farmland real estate, worked on issues con-
- cerning biodiversity, which among other things led to planting flowers around agricultural land, to improve biodiversity.
- Made further investments in the Sustainable Infrastructure portfolio, for example in Northvolt, which is building a European large-scale plant for the manufacture of lithium-ion bat-
- teries for electric vehicles, and an investment focused on expanding the production of renewable energy in developing countries.
- Performed a significant number of analyses and made additional investments in private equity funds with a clear climate focus, such as the TPG Rise Climate Fund, which is one of the largest private equity funds of the type established.

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 of the department's work is to ensure that AP2 has the required exposure to various financial markets. This entails that, as required, adjustments are made so that the actual exposures reflect the strategic portfolio adopted by the Board of Directors.

Mefix is mainly responsible for the Fund's trading in different markets. Based on orders from the portfolio managers in other departments, Mefix undertakes transactions in equities, derivatives, currencies and fixed-income securities.

The department is also responsible for the Fund's currency exposure, which entails 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.



O FOCUS 2021

• Expanded and broadened investments in sustainability-related bonds. The green bond market continues to grow, and the same applies to the Fund's investments in green bonds. There is also growth in the markets for other sustainabilityrelated bonds, such as bonds with focus on social issues, diversity, equality and elimination of poverty, of which many were issued in the wake of the strains inflicted by the pandemic on several economies.

- Continued to develop follow-up and reporting of the effects generated by the Fund's investments in sustainabilityrelated bonds
- Ensured that the Fund's investments reflect the strategic portfolio adopted by

the Board of Directors, and are subject to currency hedging in line with the current strategy, with focus on doing this effectively and securely, even when the department's staff have worked remotely. Since the relevant processes and procedures are well-developed and tested, strategic changes have been made just as securely and cost-effectively as before, despite the new circumstances.

Fundamentally, sustainability is a strategic issue

Ever since the start in 2001, Andra AP-fonden has taken sustainability issues very seriously and has been a pioneer in many respects. This is based on the conviction that this is profitable for both the Fund and the world at large.

The sustainability area has undergone major changes and development during the past 20 years. From beginning as a supplementary area with which very few people worked, mostly focused on corporate governance issues such as board composition and incentive programmes, it has become an integral element of everyone's work and of the broad view of value generation and impacts covered by ESG (Environment, Social, Governance).

This development is also reflected in AP2's work on sustainability issues, which ultimately is determined by legislation. Ethics and the environment were included in the preparatory work on the 2001 Act, and like most asset owners, the Fund's focus on sustainability issues mostly concerned corporate governance issues and gender representation on company boards. Under current legislation, the Fund must give particular weight to promoting sustainable development, and via a number of selected focus areas, sustainability is an integral element of its asset management.

In her role as senior sustainability analyst at AP2 between 2010 and 2021, and prior to that as a consultant to the Fund, Christina Olivecrona has witnessed this journey at close quarters.

"I came in as a consultant in 2005. The Fund had developed a governance logbook to analyse and assess companies according to the Fund's corporate governance policy, comprising ten elements, of which nine concerned corporate governance issues. My task was to develop how we would do this for the tenth element, which concerned ethics and the environment," says Christina Olivecrona.

One major change over the years is the greater access to data. This development was accelerated by investors' growing interest, which in turn has driven increased reporting by companies.

Sustainability risk analysis

Dialogue was and still is an important sustainability tool for the Fund, but since the perspective has been widened to include not just the asset owner, but also the asset manager, the toolbox has been expanded. This applies particularly to analysis, since in 2013 the Fund began to analyse financial climate

"We analysed fossil energy companies as we suspected that the financial climate risks were wrongly priced by the market. As a consequence, in 2014 we began to divest from e.g. coal, oil and gas companies," says Christina Olivecrona.

Data-driven focus on achieving a portfolio in line with the Paris Agreement

One major change over the years is the greater access to data. This development was accelerated by investor's growing interest, which in turn has driven increased reporting by companies. This has made it possible to also include the sustainability perspective in quantitative management.

The Fund's first attempt to construct a sustainable index with at least as good a risk and vield profile as a normal index was unsuccessful. As the data continued to be developed, a successful new attempt was made a few years later. Today, the Fund has



indices in line with Paris-Aligned Benchmark for both equities and corporate bonds.

Sustainability pays off

"Data can give very detailed answers, but a lot can also be known without that level of detail. Fundamentally, sustainability is a strategic issue. How will it change society and the economy in general?" says Christina Olivecrona.

The Fund is so convinced that this will continue to change society, and that taking this perspective into consideration will be profitable, that sustainability is now part of its investment beliefs: "Sustainability pays off" (number 5) and "Climate change is a systemic risk" (number 6).

"The starting point for our sustainability focus has always been the Fund's mission. The sustainability perspective has developed considerably and today sustainability is integrated into asset management as a matter of course, since this leads to better investment decisions and contributes to sustainable development," says Christina Olivecrona.



O FOCUS

Under current legislation, the Fund must give particular weight to promoting sustainable development.

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, which is a natural consequence of institutions' increased corporate stakes in leading stock exchanges.

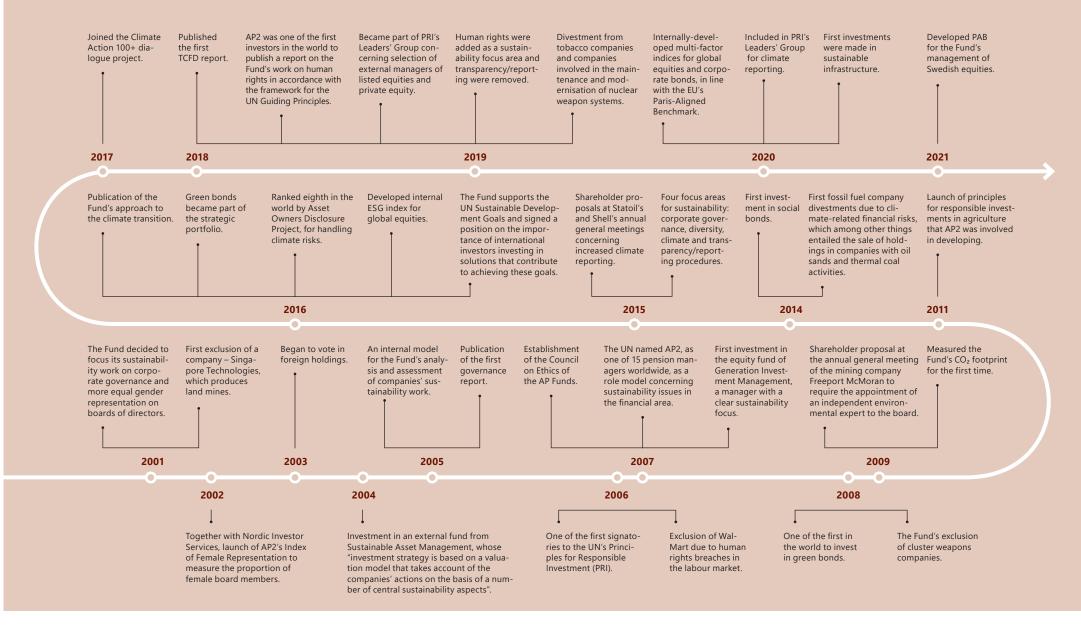
Andra AP-fonden considers it reason-

able that the demands made on institutions as active owners should increase in a world of increasingly unrestricted capital flows, characterised by growth in cross-border trade, new currency zones and a more multicultural society, where traditional national borders have acquired a new meaning. The issue of building a more sustainable society has increased in significance, together with environmental and ethical issues. Andra AP-fonden has confronted and attempted to address these issues in its corporate governance policy. In concrete terms, in the day-to-day 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 Andra AP-fonden becomes more established."

Lars Idermark, former CEO of AP2

Timeline



ANDRA AP-FONDEN ANNUAL REPORT 2021

35



INVESTMENTS

Further strong sustainability work in 2021

Andra AP-fonden's sustainability work concerns the environment, ethics, social issues and corporate governance. The goal of the Fund's sustainability work is to generate and protect value and to contribute to sustainable development.

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

Sustainability work affected by Covid-19

During 2021, the Fund's sustainability work was affected by Covid-19 to some extent, which mainly affected attendance at general meetings.

The Swedish National Audit Office's audit of the AP Funds' sustainability work

At the beginning of June 2021, the Swedish National Audit Office published an audit report on the AP Funds' sustainability work. The report confirmed that this work is appropriate in relation to the Funds' mission. The audit verified that the AP Funds have established processes and integrate sustainability in both investments and corporate governance. The Swedish National Audit Office also made recommendations relating to sustainability reporting and presentation of key performance indicators. The report emphasised the



ABOUT THE SUSTAINABILITY REPORT

Andra AP-fonden presents a separate detailed Sustainability Report, including a 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 clear information about the work on environment-related issues, as well as social conditions, labour rights, respect for human rights and anti-corruption. Here, the Fund also presents a summary of the work on diversity and corporate governance.



SUSTAINABILITY REPORT



challenges faced by the AP Funds and other similar investors, in Sweden and internationally, when it comes to presenting the extensive and complex sustainability work in a simple and easy-to-understand way.

Within the framework of the Swedish government's annual evaluation of the AP Funds' activities, in 2020 McKinsey conducted an in-depth

analysis of the AP Funds' sustainability initiatives. In its evaluation, the government noted 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 in their governance commitment, and

are also at the forefront of integrating sustainability into asset management.

Sustainability as part of the mandate

AP2 is a government agency whose activities are regulated in the Act (2000:192) on National Pension Insurance 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 trust and confidence of the general public and acts in a responsible manner. The 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 sound, 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 39). Information on 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.

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 Guidance for Responsible Investment



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.

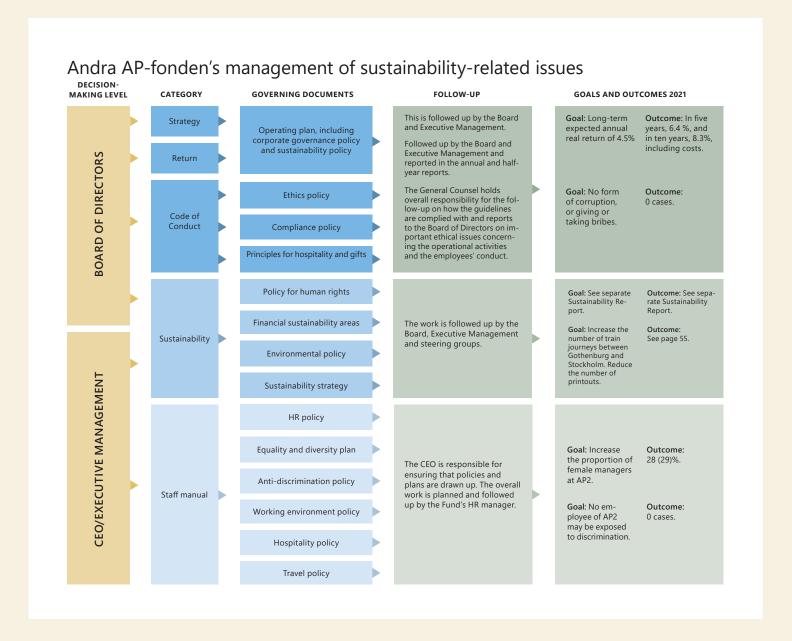
SUSTAINABILITY REPORT

in Farmland. This 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.

Sustainable Finance Disclosure Regulation

In 2018, the EU launched an action plan to increase the proportion of sustainable investments, promote a long-term perspective and make it clearer what is sustainable, with the overall goal of the EU being carbon neutral by 2050. In this regard, the EU has issued a number of regulations to strengthen the action plan. One of these is the Sustainable Finance Disclosure Regulation (SFDR), which came into force in March 2021. The main purpose of the Regulation is to enhance transparency in sustainability issues and to increase comparability between financial market players with regard to the integration of sustainability risks and the consideration of negative consequences for sustainable development in their processes.

AP1, AP2, AP3 and AP4 are not directly covered by the Sustainable Finance Disclosure Regulation, but since it is stated in the Act that the AP Funds must manage the fund assets in an exemplary manner through responsible investments and responsible ownership, and with the Regulation as the new "standard", the AP Funds discuss the extent to which they must report in line with the Regulation. In the coming years, the AP Funds will develop their reporting, primarily on the respective websites, in line with the Regulation.



SUSTAINABILITY REPORT





PRIORITISED SUSTAINABILITY AREAS

In the survey, the stakeholders ranked twelve selected sustainability areas according to how important they considered each area to be for the AP Funds to take into account in their asset management operations and in their engagement with the companies.

Five areas were considered equally important to all stakeholders:

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

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 strategist, 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 monitors 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 usually 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 breach of an international convention. This

screening is conducted by an external consultant.

The Council on Ethics focuses on persuading identified companies to deal with confirmed violations and to implement preventive systems and measures to preclude future violations.

The work is based on the principles of commitment, action and change, with the aim of making a difference.



Read more about the Council on Ethics' dialogues and their results in the Fund's Sustainability Report, and at www.etikradet.se

Collaboration with other investors

In addition to working collaboratively with the other AP Funds in the Council on Ethics, AP2 collaborates with other Swedish and international investors. AP2 is also a member of and supports various Swedish and international initiatives relating to the environment, ethics, social issues and cor-

porate governance. The Fund works with other investors to influence new legislation, primarily within corporate governance. These collaborative efforts are becoming increasingly important in order to influence and bring about change, and thereby in the long term increase the Fund's returns and contribute to sustainable development.

Stakeholder dialogue and materiality analysis

Continuous dialogue with stakeholders provides important guidance in the Funds' sustainability work. To investigate how the stakeholders view the AP Funds' mission and activities in relation to sustainability and returns, AP1, AP2, AP3 and AP4 conduct stakeholder dialogue together with the Swedish Council on Ethics.

The most recent dialogue was conducted in 2020 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 stake-holders 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 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.

SUSTAINABILITY REPORT



AP2'S SIX SUSTAINABILITY PRINCIPLES

- **1.** AP2 integrates sustainability in all investment processes.
- **2.** 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.

Sustainability strategy

The Fund's sustainability 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 to achieve the overall goal in the Fund's business plan, which includes a portfolio in line with the Paris Agreement. The Fund's current business plan, which extends until 2023, focuses among other things on developing a

more effective, sustainable and resilient portfolio. This entails enhancing the Fund's sustainability work in the areas of climate resilience, human rights and social issues, as well as biodiversity, and actively contributing to sustainable development.

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

Sustainability risks

The most significant risks to which the Fund may be exposed can be divided into financial and operational risks. In 2021, the Fund added another risk category, which is impact risks. Impact risks comprise the risk that an investment might harm people or the environment. Examples of risks associated with people are human rights violations, corruption and bribery, and examples of risks associated with the environment are biodiversity, water and waste. The purpose of identifying impact risks is to manage the risks, i.e. that the Fund has processes to avoid the risks it does not want in the portfolio and to use engagement to reduce the risks in the portfolio. As from and including 2022, impact risks will also be followed up, including in the risk section of the Fund's Directors' Re-



Sustainability strategy based on the mission

1. Mission

2. Investment beliefs

3. Sustainability principles

4. Sustainability strategy

SUSTAINABILITY REPORT



Creating a low-carbon society requires investment. The Fund's multi-factor indices for global equities and corporate bonds are in accordance with the criteria for the EU Paris-Aligned Benchmark (PAB). This entails that almost half of the Fund's portfolio is managed in accordance with PAB criteria aimed at reducing carbon emissions considerably and reallocate capital to climatefriendly investments.

AP2 also has investments in other asset classes which contribute to the transition. Several of the private equity funds in which the Fund invests focus on companies whose products and services vestments in green bonds, Swedish cleantech companies, timberland and sustainable infrastructure are further examples of investments with sustainable strategies that have a positive climate impact.

AP2's focus areas

One of the Fund's six sustainability principles is that AP2 works on the basis of the 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 period of time. The Fund also expects to be working with these areas for many years to come.

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, primarily concerning impacts on people, 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

Investments in sustainable strategies enable resource-efficient solutions. The Fund's in-

These investments are very much in line with AP2's overall mission to promote sustainable development without compromising the overall goal to be of the greatest possible benefit to the pension system. This entails that the expected return should be high and the total risk level should be low, measured in outgoing pensions.

WORLD-CLASS MANAGEMENT







































Climate

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.

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 transition. In a document published on the Fund's website, AP2 accounts for its approach to the climate transition and describes why and how the Fund works with climate issues. The Fund's objective is to have a net zero emissions portfolio by 2045.

Climate change is assessed to have a major impact on the long-term returns. It is therefore becoming increasingly important to integrate climate change aspects into risk assessments and investment decisions.

Paris-Aligned Benchmark

During 2020, AP2 implemented the EU Pais-Aligned Benchmark (PAB) for the Fund's internally managed global equities and corporate bonds, which 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 requires a PAB-adjusted index to initially have a carbon footprint at maximum 50 per cent of the benchmark index, in AP2's case equivalent to a market-weighted index. Furthermore, the footprint must be reduced by 7 per cent per year, with the aim of achieving net zero emissions in 2050. This means that the carbon footprint will be 24 per cent by 2030 and 6 per cent by 2050, compared to the market-weighted index for 2020.

For AP2's portfolios of global equities and corporate bonds, the reduction was 9 per cent in 2021 (70 per cent in 2020), taking account of Scope 3 emissions in accordance with the criteria for PAB.

In 2021, the Fund worked on analysing and developing a PAB index for the Fund's management of Swedish equities. In December, the Board decided that in 2022 Swedish equity management will start observing the PAB framework.



Why PAB?

The main purpose of adapting portfolio holdings in equities and corporate bonds in accordance with PAB is to influence companies to reduce their



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 transition.

greenhouse gas emissions. It can generally be said that companies with significant emissions must find it more difficult to finance their operations via ownership shares or loans. The PAB framework is designed for the achievement of net zero emissions by 2050. In addition to the fact that mandates managed under the framework do not include certain companies, companies that do not over time reduce their greenhouse gas emissions, both direct emissions from operations and emissions generated by their services and/or products, will have a reduced weighting in a PAB-adjusted portfolio.



Read more on pages 37–42 and in AP2's Sustainability Report.

SUSTAINABILITY REPORT

Developed metrics

AP2 is working on 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 this page shows the curve below which the global equity portfolio's carbon footprint must lie, in order to fulfil the criteria for PAB. The lower graph presents the credit portfolio's carbon footprint in relation to a marketweighted index. 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.

The curves in the graphs show an annual reduction by 7 per cent. Over time, the Fund intends to maintain the portfolio's footprint below these curves. The points in the graphs show the out-

comes for the portfolios and the benchmarks by which these are managed.



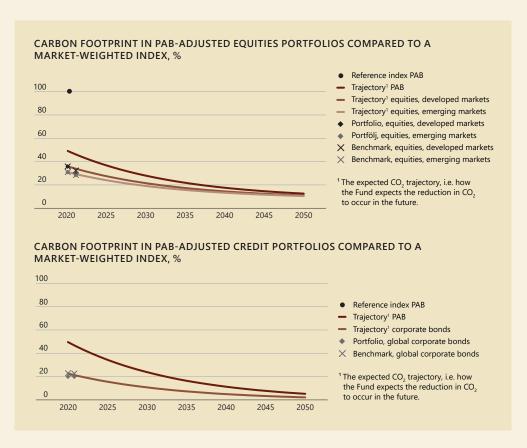
More data concerning the Fund's other metrics for its carbon footprint can be found on page 55.

Dialogue with decision-makers

Much of the climate dialogue with decision-makers in which AP2 is engaged is conducted in collaboration with other investors through the Institutional Investor Group on Climate Change (IIGCC). This organisation is working to make investor engagement in climate-related issues clear to decision-makers and to communicate investors' demands for policy measures.

The Global Investor Statement to Governments on the Climate Crisis was published prior to the G7 Meeting in June and has been signed by 457 investors, including AP2. This Statement called for governments to raise their climate ambitions and implement robust policy measures ahead of the UN COP26 in Glasgow in November 2021.

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 called for the EU to create a recovery that prioritises climate action critical to achieving the Paris Agreement's net zero emissions goal by 2050.



In 2021, AP2 also signed the Net Zero Asset Owner Commitment developed by the IIGCC's Paris-Aligned Investment Initiative and which is accredited by the UN Framework Convention on Climate Change as a Race to Zero initiative. This was a global campaign to mobilise a coalition of leading net zero initiatives with the aim of accelerating the transition to a carbon-free economy before COP26 in Glasgow. For asset owners to be

able to achieve this commitment, governments and policy makers must fulfil their commitments to achieve the 1.5°C temperature goal under the Paris Agreement. As AP2 has signed up to the Initiative the Fund is taking a number of concrete steps towards the achievement of its commitments.



Read more in AP2's Sustainability Report on pages 16-21.

Dialogue with companies

AP2 participates actively in Climate Action 100+, a five-year international dialogue initiative launched in December 2017. The 575 global investors involved in this project are working collaboratively on dialogue with just over 160 companies, which together account for 80 per cent of global industrial emissions. The aim is to get the companies 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.

During the year an assessment was published of how far the companies had come within these three areas of the Net Zero Company Benchmark. This analysis revealed that many companies have made ambitious climate commitments, but that they need to become better at reporting how they will deliver on the commitments and at reporting actual results.

Together with Öhman and Alecta, AP2 is leading the dialogue with AB Volvo, which is one of the companies in the Climate Action 100+ initiative. During 2021, this constructive dialogue focused on the company's goals and action plan to achieve net zero emissions by 2050. In June, Volvo announced that the Science Based Target Initiative has confirmed that the company's targets are aligned with the Paris Agreement. Among other things, this means that emissions from trucks and buses will be reduced by 40 per cent per vehicle kilometre by 2030, and that from 2040, Volvo will only supply products with net zero emissions.

AP2 also supports the Aligning the Banking

Handling of climate-related risks

Climate risks have a unique position among sustainability risks, as 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.

Climate-related financial risks can be divided into two groups: transition risks and physical risks. Transition risks are divided into regulatory risks, technological risks, market risks and trademark risks. Physical risks are divided into acute risks and systematic risks.

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.

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 faced by the companies were not correctly priced by the market.

Since 2019, physical climate risks have been included in the Fund's overall return assumptions on which strategic portfolio selections are based.

As AP2's internally managed global equities and corporate bonds have fulfilled the criteria for the EU Paris Aligned Benchmark (PAB) since 2020, the Fund has concluded this analysis of climaterelated financial risks for fossil energy companies and coal-based power companies.

Climate change can potentially create financial instability, resulting in serious negative consequences for the financial sector and the economy as a whole. This is why AP2 considers climate change to be a systemic risk, which is also one of the Fund's investment beliefs. This belief is mani-



fested by how the Fund develops its portfolio to bring it in line with the Paris Agreement.

An example is the introduction of indices based on the PAB criteria. 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 page 46 and in AP2's separate Sustainability Report and TCFD Report.

Sector with the Goals of the Paris Agreement document, which has been produced by the IIGCC and sets out investor expectations for banks to facilitate the transition towards net zero emissions by 2050, for boards to have the requisite skill sets and knowledge to oversee the bank's climate strategy, and for banks to provide disclosure in line with the recommendations of the TCFD.

Transparency through TCFD

For the fourth consecutive year, AP2 published a report in accordance with the Task Force on

Climate-related Financial Disclosures (TCFD) framework. The Fund supports the recommendations in the TCFD framework, since this increases companies' transparency and among other things gives investors the information needed to assess a company's climate-related risks and opportunities.



Read more on page 46.

Internal environmental work

The Fund's own direct environmental impacts are relatively limited. An internal environmental re-

view 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 and the significant reduction in travel activity, the Fund's aviation-based emissions fell drastically compared to 2019. Internal targets based on the internal environmental policy have been set. Among other things, 98 per cent of all business journeys between Gothenburg and Stockholm are made by train.

class and fund level.

Climate report for 2021 according to TCFD's framework – Summary

c) The goals used by AP2 to manage climate-related risks and opportunities,

and performance against targets

MISSION & ORGANISATION

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

	Disclosure	Reporting	
GOVERNANCE	a) The Board's supervision of climate- related risks and opportunities b) The management's role in assessing and handling climate-related risks and opportunities	AP2's Board receives ongoing information on the Fund's sustainability work, which includes climate-related issues. The Board has the opportunity to discuss ESG issues, including climate issues, at each meeting. All senior executives have a responsibility to take climate issues into account according to their various roles. Since the Fund is a small organi-	sation, where several senior executives are directly engaged in the climate-related work, the Executive Management is familiar with the work that is being done. The Fund thus has good opportunities to assess and manage climate-related risks and opportunities.
STRATEGY	 a) Climate-related risks and opportunities identified by AP2 in the short, medium and long term b) Climate risks and opportunities in investment strategies c) The resilience of AP2's strategies in various climate scenarios 	Given AP2's long-term investment horizon (30 years) it is crucial to take climate aspects into account in investment decisions. This needs to be done all the way from the highest strategic level to the individual investment. The Fund's 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 low-carbon society also entails investment opportunities, such as in sustainable infrastructure. Asset management works actively to include climate risks and opportunities in its analyses and to find investment opportunities for different asset classes. During 2021, the Fund e.g. continued the implementation of	multi-factor indices for both equities and corporate bonds, in accordance with the criteria for the EU Paris-Aligned Benchmark. Read more on page 43. In the Swedish equity management, a cleantech portfolio continued to be developed. Read more on page 30. During the year, the Fund also made further investments in sustainable infrastructure, including North-volt, which produces lithium-ion batteries for electric vehicles. Read more on page 65. AP2 has investigated how different climate scenarios can be included 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 MANAGEMENT	a) Process for identifying and assessing climate-related risks b) Process for managing climate-related risks c) Integration of climate-related risks in the overall risk management	The Fund has identified and assessed climate risks according to TCFD's categorisation. These risks are subject to annual review. The Fund's Executive Management, together with the head of the strategy department and the Fund's senior sustainability strategist, 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 fund management has access to a tool that, on a day-to-day basis, makes carbon footprint data for the Fund's internally managed equities available.
METRICS AND TARGETS	a) Metrics used to assess climate-related risks and opportunities b) Reports concerning greenhouse gases	AP2's ambition is to reduce the portfolio's carbon footprint by urging companies to reduce their carbon emissions in line with the Paris Agreement. To monitor this, the Fund reports on the development in the	at 31 December, with the help of the latest available carbon data. The carbon footprint data can be found on page 55. AP2 works continuously to improve risk information at mandate, asset

ANDRA AP-FONDEN ANNUAL REPORT 2021

PAB-adjusted portfolios' carbon footprint against the curve which the

PAB framework has determined to be in line with the Paris Agreement. AP2's annual carbon footprint is calculated for portfolio holdings as SUSTAINABILITY REPORT

Respect for human rights

Human rights is one of Andra AP-fonden's sustainability focus areas. The Fund is actively engaged in integrating human rights issues into its analysis and decision-making processes, with the aim of conducting its activities in line with the UN Guiding Principles on Business and Human Rights as from 2025 at the latest.

Human rights policy

AP2's updated human rights policy was adopted at the end of 2020. The policy defines AP2's connection to various risks in terms of human rights and also the severity of the risks, which are assessed on the basis of the impact on people and not the financial risk to the investment. The policy also defines the process for managing the Fund's human rights impacts.

An important aspect of the implementation of the policy throughout the organisation is to ensure that all employees and relevant external partners understand the policy and what it means for them in their work. In the spring of 2021, the Fund conducted training courses and workshops on the policy, both internally and with external fund managers.

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

AP2 works continuously with due diligence regarding human rights risks in the Fund's investment portfolio. The due diligence process includes identification and assessment of risks in the Fund's holdings, management of these risks and regular evaluation and reporting.

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 an asset owner and asset 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 to which it can have a connection can be found in the role of asset owner and asset 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 related to the Fund's holdings. During the year, AP2 developed a quantitative model to chart human rights risks in different sectors, countries and portfolio companies. The starting point for the risk assessment lies in the risk to human rights, 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.

Engagement with the textile and mining sectors

In accordance with the Fund's process for identifying and managing potential risks, its engagement in the Chinese textile sector continues, with special focus on a living wage and the risks of forced labour. In this dialogue, AP2 collaborates with other investors through various platforms, such as the Investor Alliance for Human Rights. The Fund has also joined the Platform Living Wage Financials (PLWF) alliance, which conducts an annual evaluation of how companies work to ensure a living wage in their supply chains. The alliance also engages in advocacy work to



promote a living wage, primarily in the textile and food industries.

During autumn 2021, the Fund expanded the dialogue within the textile sector to include more countries, and also initiated engagement with the mining sector in China.



REPORT ON HUMAN RIGHTS

During 2019, AP2 was one of the first investors in the world to publish a report on its human rights work in accordance with the framework for the UN's Guiding Principles. The second report was published in 2021. 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 the areas in which the Fund has taken important steps to develop its work, but also reports on some of the challenges identified.

This report and AP2's human rights policy are available at www.ap2.se



SUSTAINABILITY REPORT

Corporate governance

AP2's corporate governance strategy is based on its mission

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 through 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.

Voting Guidelines have been put into place to supplement the existing corporate governance policy and for a greater understanding of what AP2 expects of companies in such areas as sustainability and corporate governance. The Guidelines are based on the Fund's aforementioned corporate governance principles. Through these Guidelines, the Fund seeks to further clarify different positions at both Swedish and global general meetings.



The Voting Guidelines are available at www.ap2.se

In 2021, AP2 voted at 134 (110) general meetings of Swedish listed companies. The market value of the Fund's holdings in these companies is equivalent to 86 (75) per cent of the Fund's total holdings in Swedish listed equities.

The Fund has gradually increased its voting in global companies in recent years and in 2021, it voted at 1,092 (1,006) general meetings of companies in foreign markets. This is equivalent to 53 (38) per cent of the Fund's global portfolio, expressed in market value terms.

During the 2021 AGM season, AP2 was represented on eight nomination committees. There is further information on AP2's corporate governance work during the year in the Fund's separate Sustainability Report.

Diversity

One of the first governance issues that AP2 started to focus on was diversity and, in particular, increasing the number of women on boards and in executive management positions. Since then, the Fund has contributed to positive development in this area through a number of methods, including dialogue with companies on selection processes for board and executive management positions. Today, the Fund also has investments linked to diversity and equality, and diversity is one of the factors in the Fund's internally-developed 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 management teams. With greater diversity of gender, background and experience, groups will be more innovative and creative, which in turn will create prosperous and successful companies. Since 2003, the Fund has conducted a study to measure the proportion of women at middle-management 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 general meetings attended by the Fund during the course of the year.

The Index of Female Representation for 2021 shows that the proportion of women on boards and in executive management teams of companies listed on Nasdaq Stockholm is the highest ever. The proportion of female board members is increasing again and currently stands at 34.5 (33.7) per cent. The proportion of women in management teams of listed companies continues to increase. This year's increase, from 24.3 to 26.0 per cent, is the largest measured in percentage points since the surveys began.

Despite the increasing proportion of female board members, the proportion of female board chairs remains unchanged at 8.6 per cent. This is lower than the highest ever record of 10.2 per cent in 2019. The proportion of female CEOs shows a clear increase by 2.3 percentage points to 12.7 per cent.

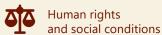
Read the full Index of Female Representation report on AP2's website.



SUSTAINABILITY REPORT

Summary of the work on human rights, social conditions, labour rights and anti-corruption.

The table gives a summary of the Fund's work on human rights, social conditions, labour rights and anti-corruption. An equivalent compilation for the work on climate issues under TCFD can be found on page 46.





Labour rights



GOVERNANCE AP2's human rights policy, corporate governance policy and sustainability policy are the documents governing the Fund's human rights work. The respective policies are available on the Fund's external website.

> The work is led by one of the Fund's sustainability analysts and a steering group consisting of the Fund's General Counsel, Head of Communications and Corporate Governance and Chief Investment Strategist. The Fund's CEO holds ultimate responsibility for the work. The Board of Directors receives ongoing reports on the Fund's work as part of the corporate governance and sustainability reporting, and decides on the exclusion of portfolio companies.

The CEO is responsible for ensuring that policies and plans are drawn up. The overall work is planned and followed up by the Fund's HR Manager. Together with the executive management, managers and employees, HR must achieve the Fund's shared goals through active and professional strategic HR activities. AP2's HR policy is the Fund's governing document for leadership, employeeship, recruitment and provision of competences. AP2 works actively on such issues as gender equality, diversity, the working environment and anti-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. The Board ensures that the remuneration paid to the CEO and other senior executives is consistent with the Board's guidelines.

In 2020, the Fund, together with AP1, AP3 and AP4, decided that the funds would

up during 2021 and adopted by the Board of Directors. The Fund's CEO holds ultimate responsibility for the policy. The Head of Compliance is responsible for guidance, sampling and controls, and ensures that the internal regulations are observed. With regard to anti-corruption, the Fund has given training to all staff members, including dilemma exercises concerning gifts and hospitality, trading in own securities, conflicts of interest and MAR (Market Abuse Regulation), and acquired tools for the continuous training of the Fund's staff members in these issues, so as to enhance awareness of compliance with the regulations and preventing corruption.

observe Swedish Anti-Money Laundering legislation, even though the Funds do

not legally fall under this legislation. An anti-money laundering policy was drawn

The Fund's compliance function also conducts ongoing sampling and controls and reports directly to the CEO and Board of Directors.

The Fund has also implemented a thorough due diligence process for its alternative investments, including reports on the fund companies in which the Fund intends to invest.

STRATEGY

The Fund assesses that the most severe risks of negative impacts on people concern the roles of asset owner and asset manager, where AP2 can contribute to or be directly linked to negative impacts in the companies in which the Fund has invested. People that might be affected adversely include employees in the various portfolio companies, consumers of the portfolio companies' products, or communities that are affected adversely by the portfolio companies' activities. AP2 works actively to identify and manage these risks. This work is integrated into several processes, which in simplified terms can be divided into the processes that take place in conjunction with the investment and the processes that are linked to the ownership role.

One element of the Fund's long-term strategy is to use its own resources to steadily build up ever more professional and cost-efficient portfolio management. The Fund's ability to retain competent and committed employees is crucial to driving development in accordance with the strategic plan and achieving the goals set. AP2 will create the conditions to attract and retain employees with the skills and experience required for the operations to be run in the best possible way. To be able to recruit and retain the right staff, AP2 seeks to offer remuneration at a level that is consistent with the industry at large. An independent party generates annual comparative statistics for individual positions held at relevant and comparable organisations in the financial industry. The principle is that the Fund's remuneration policy should be close to the median for the reference group.

The Head of Compliance has taken an educational programme in this area and, via an external consultant, provides AML training to all staff members of the Fund. Advanced courses on this subject for particularly affected business areas have taken place. All business areas have been interviewed for an inventory and gap analysis of the Fund's AML work, and draft internal procedures and governance documents have been prepared.

SUSTAINABILITY REPORT

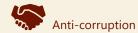
Summary of the work on human rights, social conditions, labour rights and anti-corruption, continued.



Human rights and social conditions



Labour rights



RISK MANAGEMENT

In accordance with the UN Guiding Principles, AP2 has developed due diligence processes to identify and handle actual and potential portfolio risks related to human rights. Actual risks are managed in the AP Funds' Council on Ethics, while potential risks are identified and managed with the help of a proprietary model and process. This is described in detail in the Fund's human rights report that is available on the Fund's website.

For AP2 it is important to be an attractive employer and workplace, in order to recruit and retain staff with the best competences. The Fund is therefore highly focused on leadership and employeeship. If the Fund does not have access to the right skills at the right time, operations and results can be adversely affected. AP2 is therefore continuously working on competence development with the aim of developing the operations and achieving the goals set. The purpose of the AML policy is to set down AP2's principles for managing the risks of financial violations, including money laundering, financing of terrorism and breach of sanctions. The purpose of the internal regulations is to reduce the risk of sanction breaches, or that AP2 is involved in or is used for money laundering or financing of terrorism, or that AP2 commits money laundering offences, and to reduce the risk of breach of contracts in cases where AP2 has undertakings concerning these areas.

The policy applies to AP2's activities, including all employees and contractors, as well as members of the Board of Directors in contexts where they represent AP2.

The risks identified concerning financial violations are small, however.

Due diligence processes and internal controls are in place in order to discover and proactively counter any money-laundering risks.

METRICS AND TARGETS

Risks are assessed by analysing metrics from external providers. One provider performs a norm-based screening of the Fund's holdings and reports actual incidents. For proactive risk identification, metrics from another provider are used to assess risks in sectors and countries based on 12 human rights, including the right to a living wage. The companies identified as presenting high risk are further analysed according to a severity principle, i.e. on the basis of impacts on people and not the financial risk presented by the investment.

A target is defined for each dialogue and is followed up regularly, based on specific KPIs and milestones in the dialogue process.

Based on AP2's business plan, targets and action plans are defined that are individual, department-specific and applicable to the entire Fund. 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.

The Fund must have no cases of corruption.

RESULTS

Implemented a systematic process for identification and management of risks in the portfolio.

Low staff turnover and low sick leave rates. A good working environment with committed and motivated employees.

The Fund has no cases of corruption.

ANDRA AP-FONDEN ANNUAL REPORT 2021

50

OVERVIEW

MACRO

Contributing to the UN's Sustainable Development Goals



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 in order to achieve the goals. 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.

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 each measured by various indicators.

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 TPG Rise Fund II. Together the funds have approximately USD 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.

Engagement

During the year, the Fund launched an internal project aimed at understanding, measuring and communicating the impact of investments on the environment and people. One of the objectives going forward is to be able to spotlight both the positive and negative impacts of investments,

and to link this to respective sustainability goals. The results of the analysis will steer engagement work in the direction that is considered to be most worthwhile. Among other things, higher requirements will be set for transparent impact reporting by green bond issuers.

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 assets are invested in climate projects, or projects to tackle social challenges, and 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.

Today, there is no defined reporting standard for these bonds, and this reporting varies considerably depending on such factors as the issuers' areas of activity, where they operate, etc. However, AP2 has the ambition to aggregate reporting to reflect an overall picture and since 2019 has therefore compiled annual 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. Of the projects reported during the year, more than two thirds report contributions to achieving the UN 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 reporting is to illustrate the practical implementation and diversification of sustainability within AP2's fixed-income management. In total, the Fund has currently invested in more than 170 different issuers of green and social bonds. These finance around 5 000 projects, of which around half are green and half are social.







Sustainable infrastructure is an area that requires major investment, since energy and transport systems need to undergo a rapid transition from fossil fuels to renewable sources.

Strategic allocation to sustainable infrastructure

At the end of 2019, AP2 decided to introduce a strategic allocation to sustainable infrastructure, which according to the Fund's definition is investment that directly promotes sustainable development in line with the Paris Agreement.

According to the Brundtland Commission's definition, the Fund has divided sustainable infrastructure into three different dimensions:

Environmental sustainability

Sustainable infrastructure should contribute to a low-emission society and economy, with high resource efficiency, e.g. concerning energy and water use. Sustainable infrastructure thereby contributes to the transition in line with the Paris Agreement. It must also be resilient to the risks entailed by climate change, such as the increased incidence of extreme weather. This includes both the construction phase and the operative phase.

Social sustainability

Sustainable infrastructure should be inclusive, which means for the benefit not only of individual groups, but also of society at large. From this perspective, it is also important that sustainable infrastructure creates opportunities for particularly vulnerable groups,

such as giving poorer members of a country's population access to clean water and clean energy.

Economic sustainability

Sustainable infrastructure should be economically viable, from both an ownership and customer perspective, create jobs and generally support economic development. From the Fund's perspective, the return in relation to the risk on the investments, i.e. the risk-adjusted return, must be favourable. Investments in sustainable infrastructure should take place without comprising risk-adjusted returns.

In 2020, the first three investments were made in sustainable infrastructure, and in 2021 a supplementary investment in Generate Capital and three completely new investments were made.

- Generate Capital owns and operates small-scale distributed sustainable infrastructure, primarily in the energy sector (e.g. rooftop solar energy systems for schools).
- Copenhagen Infrastructure Partners' Energy Transition Fund focuses on investing in companies that are reducing their emissions from hard-to-abate industrial sectors such as shipping, steel production and agriculture.
- Northvolt is building a European large-scale factory for the manufacture of lithium-ion batteries for electric vehicles. The company's first battery production facility is located in Skellefteå.
- Climate Finance Partnership Fund focuses on renewable energy investments in developing countries, managed by BlackRock.

SIGNATURES

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 2021. The Sustainability Report comprises pages 37–53. Andra AP-fonden's statutory Sustainability Report follows the financial year and is published annually. The previous report was published in February 2021. 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, 9 February 2022

Jan Roxendal Lin Lerpold Martina Björkman Nyqvist

Chair Vice Chair

Hanse Ringström Agneta Wallmark Johnny Capor

Kristina Mårtensson Åsa Erba Stenhammar Christer Käck

Auditors' 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 2021 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, 9 February 2022

Helena Kaiser de Carolis Peter Nilsson

Authorised Public Accountant Authorised Public Accountant

Sustainability data

Selected sustainability data for the Fund is presented on the following two pages. More detailed data is presented in the Fund's Sustainability Report for 2021.

INVESTMENTS

Climate/Environment

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

Metrics	2021	2020	2019
1. Total carbon emissions (million tCO ₂ e)	1.12	1.40	1.74
Sweden	0.08	0.10	0.13
Developed markets	0.40	0.51	0.66
Emerging markets	0.63	0.79	0.95
Change in the portfolio's total carbon emissions from the previous year (%)	-20	-20	
- of which the change related to changes in the portfolio's holdings (% units)	-17.7		
– of which the change related to changes in the companies' emissions (% units)	2.6		
2. Relative carbon emissions (tCO ₂ e/MSEK)	5.93	8.54	11.52
Sweden	1.97	2.85	3.93
Developed markets	4.25	6.63	9.34
Emerging markets	12.08	15.11	20.33
3. Carbon intensity (tCO ₂ e/MSEK)	9.75	12.76	13.25
Sweden	6.11	6.37	7.21
Developed markets	7.39	10.07	11.55
Emerging markets	13.49	18.15	20.21
4. Portfolio-weighted carbon intensity (TCFD)(tCO ₂ e/MSEK)	9.65	13.84	15.2
Sweden	4.66	9.80	5.11
Developed markets	7.93	11.10	14.82
Emerging markets	16.67	20.53	23.13
Change in the portfolio's carbon intensity (TCFD) from the previous year (%)	-30	-15	
- of which the change related to changes in the portfolio's holdings (% units)	11.8	-15	
- of which the change related to changes in the companies' emissions (% units)	-18.5	0	
Market value of the Fund's portfolio covered by CO ₂ e data (SEK billion)	193	164	
Proportion of the share capital for which data is available (%)	99	96	

Carbon measurements as from and including 2020 are based on a broader universe of carbon data and a refined method of estimating carbon emissions from non-reporting companies. As companies in the portfolio improve and increase their reporting of carbon data, AP2 also revises historical data. There may therefore be deviations in comparison with previous reports.

- 1. Total carbon emissions. Total of owned share of 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 its 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.

CO₂e (carbon equivalent) is a unit of measurement that makes it possible to compare the climate impact of different greenhouse gases.

ENVIRONMENTAL DATA

	2021	2020	2019
Internal environmental indicators			
Electricity, kWh	64 928	80 000	128 300
Renewable electricity, %	100	100	100
Copying paper, purchased (A4), kg	0	0	191
Number of printouts	15 666	31 000	70 900
Business travel			
Proportion of train journeys between Gothenburg and Stockholm, %	98	98	97
Greenhouse gas emissions from:			
Rail, domestic, tonnes of CO ₂ e	0	0	0
Air, domestic, tonnes of CO ₂ e	0	0	1
Air, abroad, tonnes of CO ₂ e	0	2	187

Employees

EMPLOYEE STATISTICS

	2021	2020
No. of permanent staff	68	71
Female staff, %	35	34
Female staff in executive management, %	33	33
Proportion of women on the Board, %	44	44
Average age, years	47	46
Median age, years	48	46
Staff turnover, %	5.8	0
Absence due to illness, %	0.9	0.8

SUSTAINABILITY DATA

Corporate governance

NOMINATION COMMITTEES IN WHICH ANDRA AP-FONDEN PARTICIPATED PRIOR TO THE 2021 AGMS

Company	Proportion of women on the Board, %	Number of newly-elected women ¹	Total change compared to previous year ¹
Better Collective	33	1	1
Catena Media	28	2	2
Coor Service Management	43	0	0
Genovis	20	0	0
IAR Systems	17	1	0
Kambi	40	0	0
Loomis	50	1	1
Trelleborg	43	1	0
Eight nomination committees in total	34	6	4

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

VOTING AT GENERAL MEETINGS IN 2017–2021

	2021	2020	2019	2018	2017
Swedish companies					
Voting at general meetings (annual and extraordinary) in Sweden, number	134	110	85	89	51
 equivalent to the % share of the number of companies in the Swedish listed portfolio 	60	52	44	51	31
 equivalent to the % share of the Fund's total holdings in Swedish listed equities (market value) 	86	75	73	81	69
Foreign companies					
Voting at foreign companies' annual general meetings, number	1 092	1 006	865	816	769
 equivalent to the % share of the number of companies in the global listed portfolio 	52	44	37	35	32
– equivalent to the % share of the Fund's total holdings in global listed equities (market value)	53	38	33	31	40

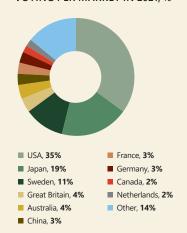
SWEDISH VOTING, SUMMARY OF DECISIONS

	Воа	ard's prop	osal	Shareh	olders' p	roposal
Area	Num- ber	AP2 in favour	AP2 against	Num- ber	AP2 in favour	AP2 against
Board members and						
discharge from liability	304	303	1	1	-	1
Incentive scheme	185	158	27	-	-	-
Adoption of financial state- ments, appointment of						
auditors, etc.	401	401	_	1	_	1
Takeover defence	-	_	-	-	-	_
Capital structure,						
organisation, acquisition	148	148	_	2	_	2
Environment and health	_	_	-	5	-	5
Corporate governance	192	192	-	2	-	2
Social issues and human rights	-	-	-	-	-	_
Total	1 230	1 202	28	11	_	11

GLOBAL VOTING, SUMMARY OF DECISIONS

	Воа	ard's prop	osal	Shareholders' proposal			
•	Num-	AP2 in	AP2	Num-	AP2 in	AP2	
Area	ber	favour	against	ber	favour	against	
Board members and							
discharge from liability	8 789	8 063	726	139	56	83	
Incentive scheme	1 439	606	833	24	8	16	
Adoption of financial state-							
ments, appointment of							
auditors, etc.	1 951	1 483	468	109	72	37	
Takeover defence	112	47	65	_	_	_	
Capital structure,							
organisation, acquisition	1 086	783	303	_	-	_	
Environment and health	_	-	-	31	20	11	
Corporate governance	19	15	4	32	17	15	
Social issues and human rights	-	_	_	25	15	10	
Total	13 396	10 997	2 399	360	188	172	

VOTING PER MARKET IN 2021, %





INVESTMENTS

DIRECTORS' REPORT

At 31 December 2021, the Fund's capital stood at SEK 441.0 billion. Profit for the year, SEK 62.3 billion, is the result of development especially in the Swedish and foreign developed stock markets, and good returns from the Fund's investments in private equity funds and real estate. Andra AP-fonden's net outflow for the year to the national pension system was SEK 7.5 billion.

The Fund's capital is affected by two factors; profit/loss for the year and net flows within the pension system. In 2021, the Fund's net capital increased by SEK 54 821 (4 874) million, boosted by the profit of SEK 62 349 (1 776) million, but also offset by net outflows of SEK -7 528 (-7 902) million to the pension system. The flows consisted of contributions paid into the system and pension payments from it, amounting to a net of SEK -7 292 (-7 692) million, plus costs for

administration of the pension system, which reduced the Fund's capital by SEK –236 (–210) million. For the thirteenth successive year, the net flow from the AP Funds to the pension system was negative. In the past thirteen years, Andra AP-fonden has thus paid out approximately SEK 73 billion to cover the ongoing shortfall in the pension system.

THE FUND'S CAPITAL GROWTH IN 2021, SEK MILLION

	2021	2020
Fund capital at beginning of year	386 224	381 350
Pension contributions received	75 597	73 874
Pension disbursements	-82 889	-81 566
Administration payments	-236	-210
Net result for the year	62 349	12 776
Fund capital at year-end	441 045	386 224

ASSET CLASS GROWTH IN THE STRATEGIC PORTFOLIO, EXPOSURE AND RETURN AS AT 31 DEC 2021 AND 31 DEC 2020

	Strategic po	ortfolio, %	Exposu	ıre, %	Exposed valu	ie, SEK billion	Absolute r	eturn, %	Relative r	eturn, %	Active risk e	ex-post*, %
Asset class	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Swedish equities	9.0	9.0	9.4	9.1	41.4	35.0	37.8	15.9	1.0	3.9	2.4	3.0
Developed markets equities	22.0	21.5	22.7	21.6	100.1	83.3	30.5	-3.7	0.8	-1.1	0.6	0.7
Emerging markets equities	10.5	10.5	9.8	10.6	43.1	40.8	13.8	-5.8	1.2	-0.8	0.4	0.6
Swedish fixed-income securities	6.5	6.5	5.3	7.0	23.3	27.0	-0.9	1.4	0.0	0.1	0.3	0.4
Foreign government bonds	4.5	4.5	4.3	4.3	18.9	16.8	2.7	-1.9	0.4	0.1	0.3	0.6
Foreign credits	9.5	9.5	9.1	9.1	40.2	35.2	6.6	-2.7	0.0	0.5	0.2	0.7
Global green bonds	3.0	3.0	2.8	2.9	12.3	11.2	0.7	-0.9	-0.3	-0.1	0.3	0.4
Emerging markets fixed-income securities	7.5	7.5	6.9	7.2	30.6	27.8	0.9	-7.9	-0.4	-0.3	0.5	0.8
Total listed assets, excl. alternative investments, commission and operating expenses	72.5	72.0	70.3	71.8	309.9	277.1	13.2	2.9	0.5	0.0	0.4	0.5
Alternative investments	27.5	28.0	29.7	28.2	131.1	109.1	26.7	5.3				
Total Fund capital, excluding commission and operating expenses	100.0	100.0	100.0	100.0	441.0	386.2	16.4	3.7				

^{*} Historical data, 12 months rolling.

OVERVIEW MACRO

Net result for the year

A strong performance in 2021 resulted in a profit of SEK 62.3 billion, which primarily reflects positive development in the Swedish and foreign developed stock markets as well as robust performances among non-listed assets. The Fund's investments gave a total return of 16.3 per cent (including costs).

Operating income

Operating income comprises both dividend yield 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 weakening of the Swedish krona in 2021 has had a significant positive impact on reported earnings in assets in foreign currencies. This impact has been partly offset by the negative effect of the Fund's currency hedging of parts of the portfolio.

The dividend yield in the form of net interest income and dividends received stood at SEK 8 378 (7 170) million for the year.

Net income from listed equities, comprising unrealised and realised gains/losses, totalled SEK 27 949 (14 703) million, including expenses for performance-based fees but excluding foreign-exchange effects. Stock market returns, particularly Swedish and foreign developed stock markets, have produced the reported profit. The Fund's Swedish equity portfolio and the equity portfolio for foreign developed markets generated a total return of 37.8 and 30.5 per cent respectively, compared with a return of 13.8 per cent for the equity portfolio for emerging markets.

Net income from non-listed equities totalled SEK 21 307 (5 754) million, and is primarily attributable to the 66.1 per cent return on the Fund's portfolio of private equity funds, and the return of 16.0 per cent on traditional real estate, including currency hedging.

Net income from fixed-income assets totalled SEK -5 123 (3 757) million. However, including the effect of the weakening of the Swedish krona, the return is positive for the asset class.

The Fund's trading in derivatives reported a negative net income of SEK –797 (–2 063) million, affected partly by the component of the currency hedging's forward exchange contracts that are recognised as derivative instruments.

As a consequence of the weakening of the Swedish krona in 2021, the Fund's currency exposure had a positive impact on reported earnings from foreign currency assets. The Fund's current hedging of parts of the portfolio of foreign currency assets has had an adverse impact on earnings during the year. Recognised net income from movements in foreign currency exchange rates, where the year's positive impacts of exchange rate movements on foreign holdings, SEK 25 097 (–31 474) million and the negative impacts of currency hedging, SEK –14 368 (15 441) million are reported together, stood at SEK 10 729 (–16 033) million. For more details of the Fund's currency exposure, see page 76.

Management expenses in the form of performance-based fees, totalling SEK 120 (293) million, were charged to net income from externally managed assets in 2021. 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 accordance with current accounting principles. Commission expenses pertaining to fixed external management fees of SEK 167 (236) million and custodial expenses of SEK 41 (41) 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 performance-based contracts and asset management fee payments are charged to net income for each asset class. See Notes 3 and 4 on pages 84–85. The Fund's operating expenses and commission expenses, expressed as the management expense ratio, were 0.11 (0.14) per cent for 2021. 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 on a low level. Moreover, it has been reduced from the previous year. A global cost-efficiency comparison between Andra AP-fonden and other pension funds shows that Andra AP-fonden is highly costefficient. For more details, see page 77-78.

PROFIT/LOSS FOR THE YEAR

Operating expenses

Operating expenses totalled SEK 245 (235) million. Recognised in relation to average Fund capital over the twelve months, this corresponds to an unchanged cost level (management expense ratio excluding commission expenses) of 0.06 (0.06) 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. Throughout 2021, the approach for Fund capital under external management was mainly active and, by year-end, SEK 80 (63) billion was being managed under external mandates, including non-listed assets. This is equivalent to 18 (16) 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 perfomance-based element. In 2021, the fixed cost was SEK 167 (236) million and the variable performance-based element was SEK 120 (293) million. The fixed external management fees for the year have decreased due to termination of a number of external manadets.

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 (41) million in 2021.

Brokerage commission

A brokerage commission is paid on the purchase and sale of equities 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 under Net income for listed equities and participations. See Note 2 on page 84. Brokerage commission paid in 2021 totalled

SEK 88 (98) million. Commission paid to the Fund's external managers accounted for 17 (12) per cent of the brokerage costs, and the Fund's in-house portfolio management organisation accounted for the remainder. Costs amounted to 0.05 (0.05) per cent of the total trading volume. The following five counterparts (listed in alphabetical order) received commissions equivalent to 43 per cent of total commission payments: China International Capital Corporation (CICC), D. Carnegie & Co, Goldman Sachs, Nordea and UBS.

Asset class	2021	2020	Asset class	2021	20
Swedish equities	0.12	0.57	Swedish equities	3.2	
Developed markets equities	0.22	-0.35	Developed markets equities	6.4	-(
Emerging markets equities	0.17	-0.13	Emerging markets equities	1.5	-
Swedish fixed-income securities	0.00	0.00	Swedish fixed-income securities	-0.1	
Foreign government bonds	0.03	0.01	Foreign government bonds	0.1	
Foreign credits	0.01	0.08	Foreign credits	0.7	-
Global green bonds	-0.02	0.00	Global green bonds	0.0	
Emerging markets fixed-income securities	-0.03	-0.02	Emerging markets fixed-income securities	0.1	-
Absolute return	0.06	0.05	Absolute return	0.0	
Total market-listed assets excl. alterna-			Semi-strategic allocation	-0.4	
tive investments and implementation	0.56	0.04	Overlay	-0.1	
effects	0.56	0.21	Swedish equities Developed markets equities Emerging markets equities Swedish fixed-income securities Foreign government bonds Foreign credits Global green bonds Emerging markets fixed-income securities Absolute return Semi-strategic allocation Overlay Currency hedging listed portfolio Alternative investments Currency hedging alternative investments Total assets, excl. commission	-2.3	
Implementation effects*	-0.07	-0.16	Alternative investments	8.4	
Total market-listed assets excl. alterna-	0.07	0.10	Currency hedging alternative investments	-1.2	
tive investments and incl. implementa- tion effects	0.50	0.05		16.4	

INVESTMENTS

Portfolio return

The total portfolio return in 2021 was 16.4 per cent, excluding commission expenses and operating expenses but including performance-based fees.

Listed equities performed extremely well, especially in developed counties, despite repeated waves of coronavirus variants and the subsequent major disruptions to consumption, manufacturing, supply and global logistics. The Swedish krona weakened against most currencies, which contributed to a higher return on foreign assets from a Swedish perspective. This was partially offset by the Fund's currency hedging programme.

The listed portfolio return was 13.2 per cent, including currency hedging. Foreign equities in developed markets noted a return of 30.5 per cent in Swedish kronor, excluding currency hedging effects. Swedish equities reported a return of 37.8 per cent and emerging markets equities, excluding Chinese equities, which are reported under alternative investments, rose 13.8 per cent.

The only asset class to have a negative return was Swedish bonds, at -0.9 per cent. The returns on foreign government bonds and credits were 2.7 per cent and 6.6 per cent respectively, in Swedish kronor excluding currency hedging. Global green bonds rose 0.7 per cent,

also in Swedish kronor and excluding currency hedging effects. These foreign bond portfolios are fully hedged, however, which is why the positive effect of the weaker Swedish krona is offset by a negative return in the currency hedging positions. Bonds in emerging markets increased in value by 0.9 per cent in Swedish kronor. The asset type is partly currency hedged.

Alternative investments, i.e. real estate, private equity funds, sustainable infrastructure, private debt, alternative risk premia, Chinese government bonds and Chinese A-shares, generated a return of 26.7 per cent, including currency hedging.

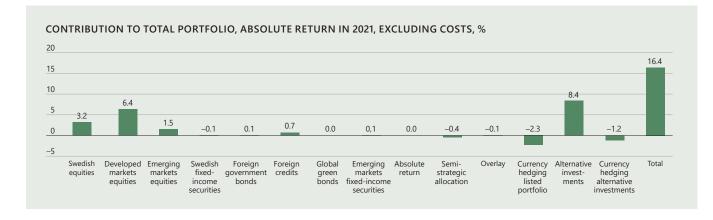
The contribution made by the various asset classes to the total profit/loss depends on their return and on the relative percentage of portfolio value they represented during the year. Equities in developed markets, which represent a large share of the portfolio, generated a performance contribution of 6.4 per cent. Swedish equities contributed 3.2 per cent and emerging-market equities 1.5 per cent. Absolute return mandates, Swedish fixed-income securities and green bond return contributions were very small. Foreign government bonds contributed 0.1 per cent. Foreign credit bonds contributed 0.7 per cent and emerging market bonds 0.1 per cent. These contributions are recognised exclusive of the effects of currency hedging. Alternative investments contributed 7.2 per cent, including currency

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 weakening of the Swedish krona gave a negative -2.3 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 16.0 per cent. The portfolio of timberland and farmland real estate returned 9.8 per cent. The private equity portfolio produced a very high return of 66.1 per cent for the year. Alternative risk premia delivered a return of 14.3 per cent. The portfolio of nonlisted credits is under construction and its return was negligible. The management of sustainable infrastructure is also under construction, but has come slightly further. The return in 2021 was 19.2 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 4.3 per cent. Chinese government bonds are classified as alternative investments, like the equities, and returned 18.7 per cent. This is partly because the Chinese currency is not hedged and strengthened against the Swedish krona.

Andra AP-fonden has generated an annual average return of 8.5 and 9.5 per cent over the past five and ten years respectively. Minus inflation, this is equivalent to an annual real return of 6.4 per cent over five years and 8.3 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.



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 decided to move some of the more long-term tactical positions to a separate semi-strategic allocation portfolio.

In 2021, the listed portfolio had a return of 13.2 per cent, in Swedish kronor including currency hedging. The active return for the year was 0.56 per cent. 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 0.50 per cent. The effects of implementation reduced the relative return by 0.07 per cent. For administrative reasons, this calculation does not take into account active return from the Chinese equity mandates. The semi-strategic portfolio contributed -0.36 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 -0.3 per cent this year.

In the last five years, the Fund's active return has averaged -0.01 per cent per year. Over the same period, the implementation effects have averaged -0.08 per cent. The average relative return has thus been -0.09 per cent. In the last five years, the relative return plus semi-strategic positions and active Chinese return have reached 0.23 per cent per year. The Fund has set a target of 0.50 per cent per year for the relative return over time.

Swedish equities

The Swedish equity portfolio outperformed the benchmark index by 1.0 per cent. The portfolio of fundamentally managed equities generated a return of 1.3 per cent more than its weighted index. The small cap portfolio outperformed the benchmark index by 1.6 per cent. The Fund manages all Swedish equities in-house.

In addition to these portfolios, the Fund is building a portfolio of small cap equities focused on green technology.

Foreign equities

The management of foreign equities in developed markets delivered a positive active result of 0.8 per cent. The active result for equities in emerging markets was 1.2 per cent. The management of Chinese A-shares is conducted with major deviation mandates and has delivered a very high active return over time. Growth was negative during the year, however, and the active return was –10.0 per cent.

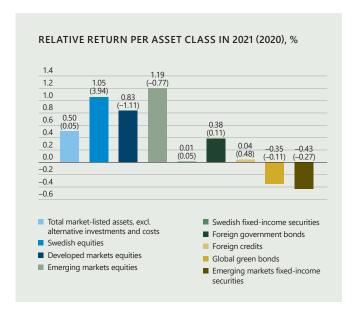
Swedish and foreign fixed-income assets

The Swedish fixed-income management's active return was 0.01 per cent. The portfolio of foreign government securities, managed in-house, had an active return of 0.4 per cent. The in-house management of credit bonds outperformed the benchmark index by 0.04 per cent.

The management of emerging-market bonds, issued in US dollars, achieved an active return of -0.7 per cent during the year. The management of emerging-market bonds in local currency underperformed the benchmark index by 11 basis points. The management of global green bonds had an active return of -0.3 per cent during the year.

Other contributions

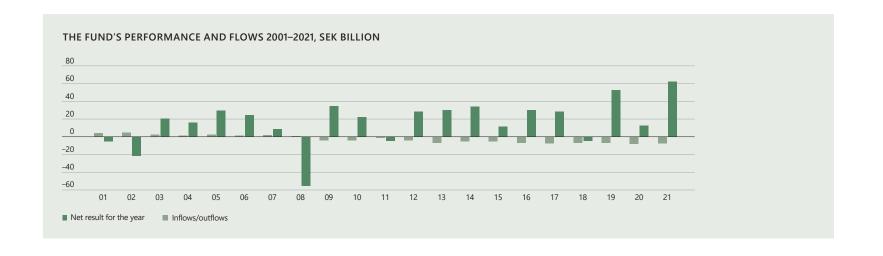
The Fund's in-house tactical allocation activities delivered a positive result of SEK 140 million. The semi-strategic portfolio which, among other things, has been positioned for a strengthening of the krona exchange rate gave a return of SEK –1.4 billion. Without the latter positions, the Fund would have been close to exceeding the statutory limit for maximum currency exposure during the year. Equity loans and currency trading contributed SEK 16 million.



RELATIVE GROWTH OF THE LISTED PORTFOLIO

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Fund capital, SEK billion	441.0	386.2	381.3	334.8	345.9	324.5	300.6	293.9	264.7	241.5
Net outflows to national pension system, SEK billion	-7.5	-7.9	-6.5	-6.8	-7.4	-6.6	-4.9	-5.1	-6.9	-3.8
Net result for the year, SEK billion	62.3	12.8	53.0	-4.3	28.8	30.5	11.7	34.3	30.1	28.6
Return on total portfolio before commission expenses and operating expenses, %	16.4	3.7	16.1	-1.2	9.1	10.5	4.1	13.3	12.8	13.5
Return on total portfolio after expenses, %	16.3	3.5	15.9	-1.3	9.0	10.3	4.0	13.1	12.7	13.3
Relative return on listed assets, excl. alternative investments, commission expenses and operating expenses, %1	0.5	0.0	-0.9	-0.2	0.1	-0.4	0.9	0.5	0.4	1.1
Active risk ex-post, %	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Currency exposure, %	34	34	34	32	33	31	30	24	23	20
Management expense ratio, excluding commission expenses, %	0.06	0.06	0.07	0.06	0.06	0.07	0.07	0.07	0.07	0.07
Management expense ratio, including commission expenses, %	0.11	0.14	0.15	0.14	0.15	0.15	0.18	0.17	0.17	0.16
Annualised return after operating expenses 5.0 years, %	8.5	7.3	7.4	6.9	9.8	10.6	8.0	9.4	10.8	2.4
Annualised return after operating expenses 10.0 years, %	9.5	7.7	8.4	8.8	6.0	5.5	5.7	7.1	7.0	7.4

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



Development in alternative investments

Within the alternative investments asset class, Andra AP-fonden has gathered investments in non-listed real estate (including timberland and farmland real estate), private equity funds, alternative risk premiums, private debt, 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 31.6 per cent (26.7 per cent with currency hedging earnings included). The return was excellent for practically the whole asset class.

The long-term work of selecting and investing in private equity funds has resulted in a very positive outcome. Moreover, the return on the non-listed real estate holdings has been excellent. Sustainable infrastructure, established two years ago, has also produced a positive return. The initial assessment was that it would take a considerably longer period of time for it to reach attractive yield levels. The long-term investments in timberland and farmland also generated a positive return in 2021.

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 2021, the return on private equity funds was 71.4 per cent (66.1 per cent including currency hedging). The portfolio's market value was SEK 41.8 billion at the end of the year.

The portfolio of private equity investments has continued to generate a high return that is better than for the listed stock market.

The long-term strategy of a selective choice of funds is a crucial factor in the level of return achieved.

In 2021, the total investment commitments of the private equity portfolio, excluding liquidated investments, amounted to SEK 62 billion.

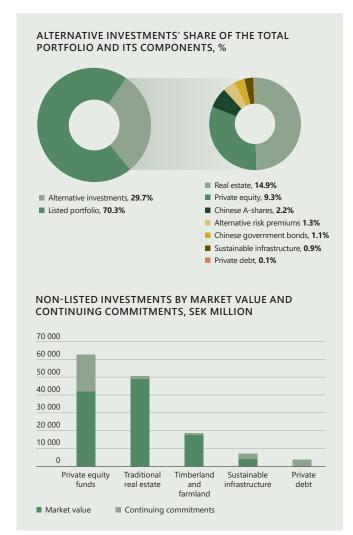
Since the start in 2001, SEK 47.8 billion (including management fees) has been invested, of which SEK 45.6 billion has been repaid. As in previous years, the portfolio was consistently characterised by high activity, with the funds making many investments and divestments. During 2021, SEK 8.3 billion has been invested and SEK 9.3 billion has been repaid, resulting in a net outflow of SEK 1.0 billion.

Andra AP-fonden carried out 15 new investments during the year. The total commitment for these was equivalent to SEK 8.2 billion. New investment commitments include allocations to Andreessen Horowitz, Ares Management, Astorg, Balderton, Blackstone, Generation, GI-Partners, Hellman & Friedman, Primavera, TCV, Thoma Bravo and TPG

The exposure to North America was 56 per cent, Europe 22 per cent, Asia 20 per cent and the rest of the world 2 per cent. The portfolio is also diversified per sector, with information technology accounting for 35 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 60 per cent, followed by venture funds at 32 per cent, and special situation and problem companies at 8 per cent.

Management fees paid for non-listed assets are recognised as a component of the initial cost of the assets. For more details, see the Fund's accounting and valutation principles on pages 82–83.



GROWTH IN ALTERNATIVE INVESTMENTS

Traditional real estate

The Fund's non-listed 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, five in Asia, one in Latin America and one in Poland. A framework for side investments for the Asian funds has also been in place since 2018. 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 market value of just over SEK 181 billion and has a concentrated portfolio of

attractively-located real estate holdings in the Stockholm, Gothenburg, Öresund and Uppsala regions. 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 3.3 billion and comprises high-quality office buildings in attractive locations in London, Paris, Munich, Amsterdam and Hamburg. Nuveen Real Estate handles the administration of the company, as well as 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 2.5 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.

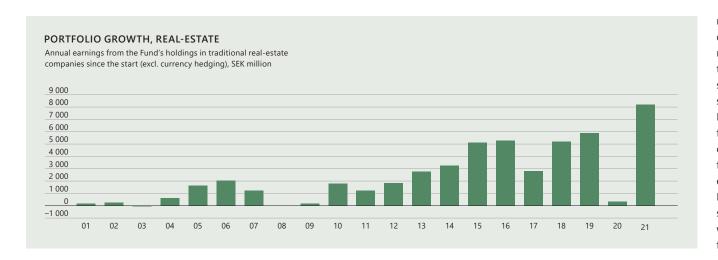
Gaw Centurion II, which invests in new construction of logistics properties in China, mainly in Shanghai and Beijing. Hines Poland Sustainability Income Fund, which invests in office and logistics real estate in Warsaw and Krakow. GTIS Brazil Real Estate Fund III, which invests in real estate in Brazil with a focus on São Paulo and Rio de Janeiro.

The return on Andra AP-fonden's investments in traditional real estate during the year was 28.2 per cent (16.0 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 growth in line with the Paris Agreement, 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.

Since the launch of the portfolio, six investments have been made: Pattern Energy, which is 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 smallscale distributed sustainable infrastructure, primarily in the energy sector (e.g. rooftop solar energy systems for schools). Copenhagen Infrastructure Partners Fund IV, which is one of the largest global funds for development and operation of wind farms with a focus on offshore wind. Northvolt AB, a Swedish company that is building a facility in Skellefteå for the manufacture of lithium-ion batteries for electric cars and storage of energy. Copenhagen Infrastructure Partners' Energy Transition Fund, which focuses on investments in so-called Power to X, i.e. projects where renewable energy from wind and solar power enables the production of climate-neutral fuels such as hydrogen and e-methanol. Blackrock's Climate Finance



GROWTH IN ALTERNATIVE INVESTMENTS

Partnership fund, which focuses on construction of sustainable infrastructure in emerging countries. In addition to Blackrock, it has the state-owned French and German development banks as its founders and co-investors.

The return on Andra AP-fonden's investments in sustainable infrastructure during the year was 23.4 per cent (19.2 per cent including currency hedging).

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 investments 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. As a complement to these investments, the Fund has also invested in a company for timberland in

Latin America and Europe.

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 28–32 in the Fund's Sustainability Report, www.ap2.se

In 2021, the Fund's return on investments in farmland was 18.2 per cent (10.4 per cent including currency hedging). The return on investments in timberland was 17.1 per cent (8.5 per cent including currency hedging).

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

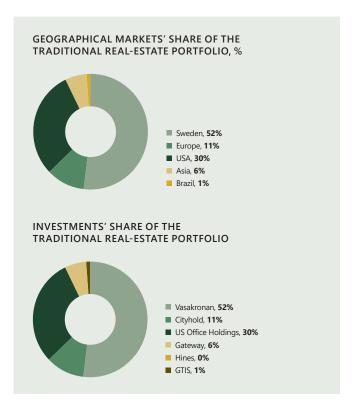
Private debt

Following a change in legislation, Andra AP-fonden was able to start investing in private debt in 2021 in order to benefit from the illiquidity premium that exists in this asset class. The investments will mainly be made in secured corporate credits, but other types of private debt may also be considered for the purpose of diversifying the portfolio.

Four commitments were made within the asset class in 2021, but as the investments have not yet been implemented, there is no result to be reported for this area.

Alternative risk premiums

With alternative risk premiums, the aim is that the portfolio will help improve the diversification and generate higher risk-adjusted return, since the portfolio is built to be less dependent on traditional stock market risk. In 2021, the portfolio consisted of premiums for reinsuring insurance companies and premiums associated with the markets for corporate acquisitions and convertibles. All mandates in this area have been managed externally. The return for 2021 was 25.2 per cent (14.3 per cent including currency hedging).



The underlying portfolios of different premiums all showed a satisfactory level of return for 2021.

Chinese 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.

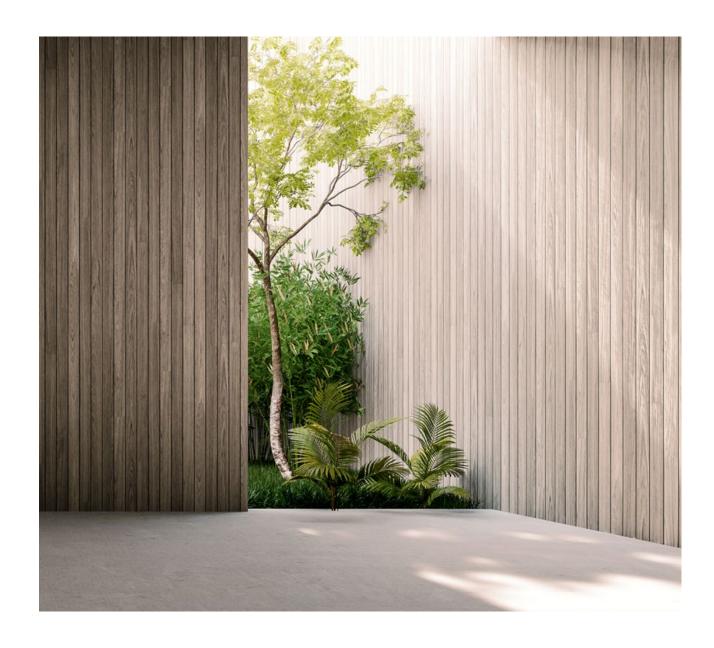
In 2021, the benchmark index rose 14.4 per cent in Swedish kronor. After delivering excellent relative returns for many years, the Fund's managers have struggled during the year to outperform the benchmark index. The absolute return for Andra AP-fonden's managers was 4.3 per cent for 2021.

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 18.7 per cent.

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.

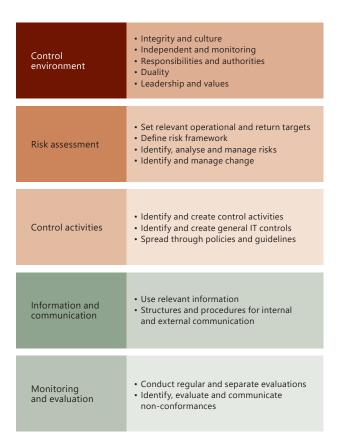


¹ Adjusted index.

SUSTAINABILITY

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.



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 First, Second, Third and Fourth AP Funds have the same internal audit provider, appointed through a joint procurement exercise undertaken in 2020.

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 Legal, 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

INTERNAL GOVERNANCE AND CONTROL

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.

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 various 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 environ-

ment 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 Executive 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 information is available on page 72.

FUND GOVERNANCE

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 audit function 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.

Board of Directors

CEO

First 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.

Reporting

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

Second 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.

Third 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 2021

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 AP 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-taking 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 size of the AP Funds is relatively limited in relation to the pension system as a whole. 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 assets 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 Guidelines. 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. The department is also responsible for developing guidelines and risk models, as well as providing advice and support to the Fund's Executive Management and portfolio management teams.

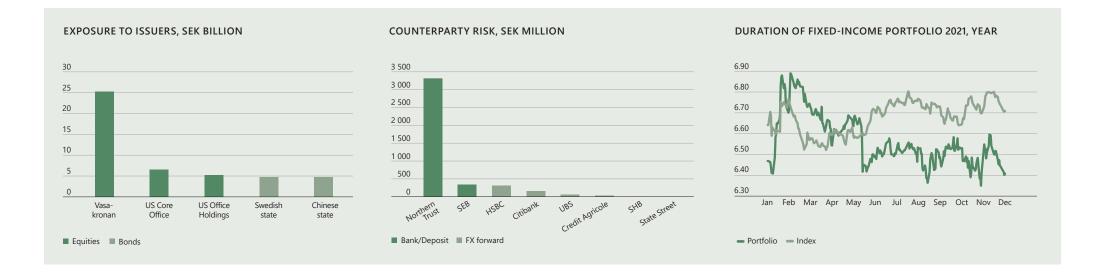
The Fund's risks

The most significant risks to which the Fund may be exposed can be grouped into financial, operational and impact risks. Overall, sustainability risks may affect all these risks.

There are various types of sustainability risks and they can potentially impact the Fund in different ways. They can be either financial risks or operational risks and are classified under these two categories. One example of a sustainability risk that affects financial risk is fossil fuel reserves. The risk means that the assets may be aban-

doned as a result of the transition to a fossil-free society and are thus at risk of devaluation, which in turn causes the companies that hold them to decline in value. This can be seen as a sustainability risk, but it is implemented in the form of a financial risk. Reputational risk is the most common sustainability risk factor under operational risks. The risk that the investment activities lead to a decline in confidence in the business or the pension system.

As well as the grouping of risks into financial and operational risks, there is also the risk that an investment might cause harm to human life or the environment, without necessarily having any impact on financial or operational risks. These risks can be categorised under impact risks. High impact risks mean that the Fund finds it difficult to achieve its goal of exemplary management. The risk of the Fund contributing to violations of human rights through its investments is one example of this kind of risk.



RISK MANAGEMENT

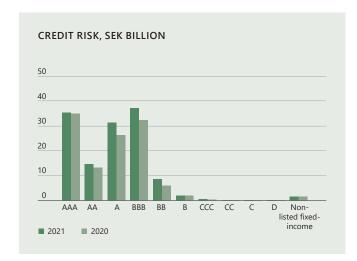
MACRO

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 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/deposit transaction will become insolvent and unable to fulfil its obligations.
- Issuer risk the risk that an issuer will become insolvent and unable to fulfil its obligations.
- 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.

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 non-listed assets (alternative credit funds).

The counterparty risk is monitored and analysed on a daily basis. A credit check is performed 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 minimised 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

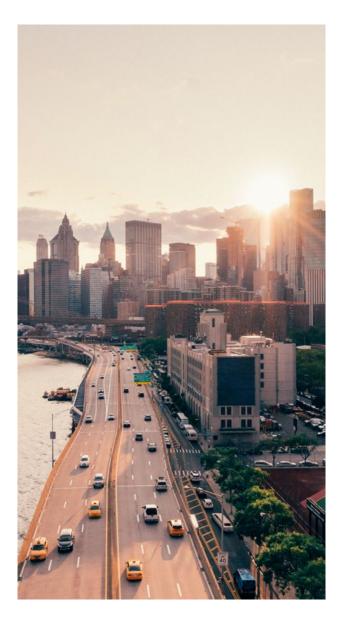
Liquidity risk is the risk that a security cannot be converted into cash in a timely manner without incurring a substantial loss or considerable cost. The AP Funds must also be prepared to transfer funds to the Swedish Pensions Agency. The Fund's liquidity risk is restricted by the National Pension Insurance 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

MISSION & ORGANISATION

RISK MANAGEMENT



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 12 months, fell during the year and at year-end stood at 5.4 (13.4) per cent.

Andra AP-fonden reports a reduced active risk ex-post for the total listed portfolio for 2021. As at 31 December 2021, the active ex-post risk stood at 0.38 (0.52) per cent. For the asset class Swedish equities, active risk fell from 3.0 per cent to 2.4 per cent. Foreign credits fell from 0.7 per cent to 0.2 per cent as a result of, among other things, reduced market volatility after the start of the pan-

demic. Other asset classes noted 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 1.3 at year-end. Due to an improved absolute return, the Sharpe ratio for the Fund's listed portfolio rose during the year to 2.5 at year-end.

At 31 December, the fixed-income portfolio duration was 6.4 (6.5) years, representing a decrease of approximately 0.1 year on the previous year. The decrease comes mainly from the asset classes Swedish fixed-income securities and fixed-income securities in emerging markets. 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 27 (30) per cent AAA, 11 (12) per cent AA, 24 (22) per cent A, and 28 (27) per cent BBB.

For the currency-hedged asset classes, alternative asset classes are estimated to have the highest absolute ex-ante volatility (see graph on page 75, Ex-ante volatility and correlation to total portfo-

RISK CALCULATED AS VALUE-AT-RISK (VAR) FOR ANDRA AP-FONDEN'S TOTAL PORTFOLIO, 2021

SEK million	Contribution to ex-ante VaR (95%, 1 day)	Contribution to ex-ante volatility (1 year)	Percentage risk (%)	Percentage market value (%)
Equities	2 784	26 809	57	42
Fixes-income securities	165	1 591	3	28
Currency risk	34	330	1	0
Alternative investments	1 908	18 376	39	30
Totalt Andra AP-fonden	4 891	47 106	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

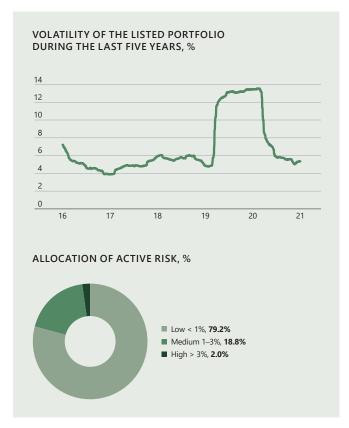
lio per currency-hedged asset class). Above all, the Fund's investments in private equity and traditional real estate have a high estimate of absolute volatility. Fixed-income asset classes are expected to have low absolute risk and the equity risk is expected to be around 10–13 per cent a year. The equity risk was well above expectations throughout 2020, but fell back down to historically more normal levels in 2021.

In order to calculate weighted risk contribution, the correlation to the Fund's total risk also has to be estimated. Equity asset classes are expected to have a high correlation with the Fund's total risk, fixed-income asset classes are estimated to have very low or negative correlation. The correlation of alternative asset classes is normally below that of equity asset classes.

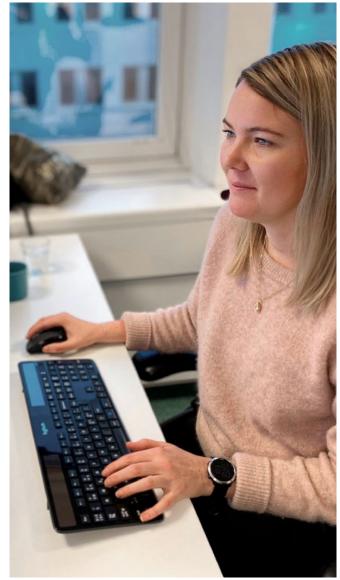
The Fund's total ex-ante volatility is estimated to be 10.7 per cent a year, and it is mainly equity asset classes that carry the most risk. The volatility is high, the allocations are large, and the correlation to the Fund's total risk is therefore high (see graph on page 75, Contributions to ex-ante 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 carries 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 fixed-income securities in emerging markets.

Estimated volatility decreased by about 1.3 per cent during the year due to more or less all asset classes, except private equity funds, contributing to less risk than in the previous year. The risk contribution of private equity funds is increasing as a consequence of the asset class's relatively larger share of the Fund's total portfolio.

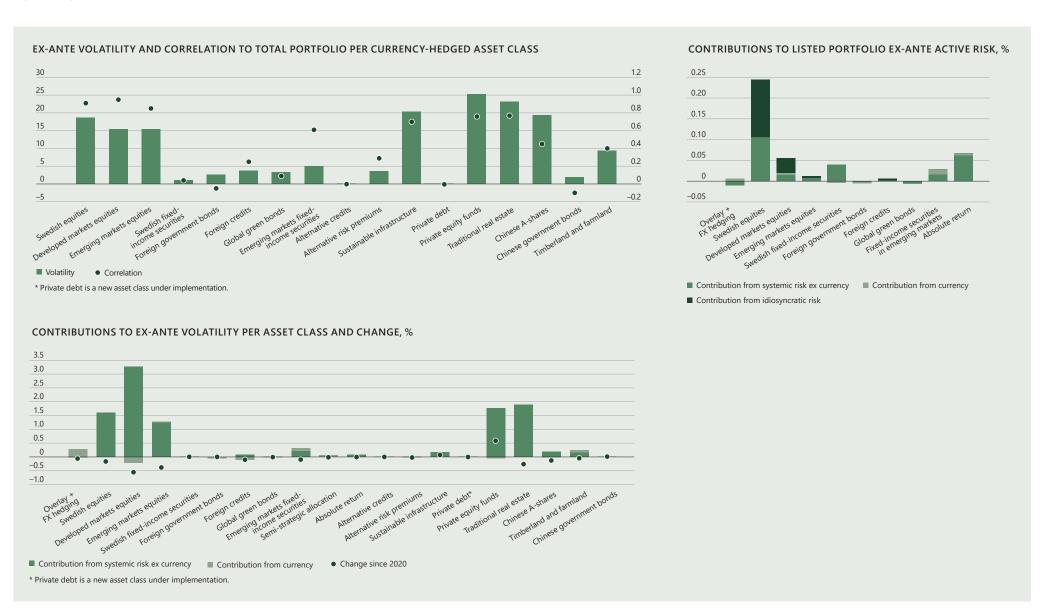
The listed portfolio's active ex-ante risk is estimated to be 0.43 per cent (see graph on page 75, Contributions to listed portfolio ex-ante active risk). Contributions to active risk are dominated by Swedish equities. The asset class that carries most currency risk when it comes to active risk is fixed-income securities in emerging markets. 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 4.9 billion (see table on page 73). In other words, with an assumed probability, the Fund is expected to lose a maximum of SEK 4.9 billion a day per month. The Fund's annual volatility is estimated to be approximately SEK 47.1 billion. The Fund thus estimates that with a standard deviation probability, next year's results will be between plus/minus SEK 47.1 billion, provided that the positions from year-end do not change.



RISK MANAGEMENT



OVERVIEW MACRO INVESTMENTS **FUND GOVERNANCE** MISSION & ORGANISATION SUSTAINABILITY DIRECTORS' REPORT ACCOUNTS AND NOTES

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 EUR. The Fund's currency hedging policy

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 2021 had a positive impact on the income statement due to the net weakening of the Swedish krona against other currencies. The currency hedging programme had an adverse impact on earnings. A total of SEK 10.7 (-16.0) billion in foreign-exchange gains was recognised for the Fund's total portfolio exposed to foreign currency, including currency hedging.

31 Dec 2021	USD	CNY	EUR	HKD	INR	JPY	Övr	Total	35
Shares and participations	127 460	9 368	26 620	10 214	6 561	9 656	44 209	234 088	30
Bonds and other fixed-income securities	46 683	4 641	27 586	_	0	4 451	27 716	111 077	25
Other assets and liabilities, net	-223	525	956	69	1 726	45	1 586	4 684	20
Derivatives excl. foreign exchange derivatives	55	_	1	_	_	_	-56	0	15
Foreign exchange derivatives	-124 871	-	-42 676	-115	-35	-6 156	-26 622	-200 475	10
Currency exposure, net	49 104	14 534	12 487	10 168	8 252	7 996	46 833	149 374	5
31 Dec 2021	USD	CNY	HKD	EUR	IDR	INR	Övr	Total	0 01 02 03 04 05 06 07 08 09 Currency exposure Andra AP-fonden
Shares and participations	96 203	11 485	10 878	21 123	5 044	8 180	37 929	190 842	- canciley expedition and in londer
Bonds and other fixed-income securities	42 897	3 911	_	27 324	0	_	26 367	100 499	Statutory limit for currency expo
Other assets and liabilities, net	1 347	524	156	478	1 735	25	-1 015	3 250	
Derivatives excl. foreign exchange	2	_	_	2	_	_	-4	0	
derivatives			-46	-40 093	72	-1 462	-21 453	-167 460	
3	-104 478	_	-40	-40 033	1 4	1 102	= 1 100		

ing venue and not on the currency of each company's domicile.

ANDRA AP-FONDEN'S ANNUAL REPORT 2021

OWTH SINCE START, %



osure is 40 per cent.

Efforts to achieve improved cost savings continue

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

Transaction costs are the cost associated with the implementation of each individual transaction, whether it concerns listed or non-listed 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 the choice of both asset class and implementation method. Fund management is conducted internally where possible and where this is considered cost-effective.

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

approximately the same size and with a similarly composed portfolio. Andra AP-fonden has been taking part in CEM's annual comparison study since 2004. According to the latest analysis (2020), Andra

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. In 2021, the implementation effects were -0.07 (-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 asset managers of approximately the same size and with a similarly composed portfolio.

COST-EFFICIENCY COMPARISON WITH INTERNATIONAL

ACCOUNTS AND NOTES

PENSION FUNDS 2004-2020, INDEXING

FUND GOVERNANCE

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 less use of external management.

VAT

200

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. In 2021, the costs for Swedish VAT on services acquired from outside Sweden totalled SEK 29 (29) million.

Collaboration with other AP Funds

The AP Funds' (AP1-AP4 and AP7) Collaboration Council was established to create better and more effective collaborative working in

ANDRA AP-FONDEN'S ANNUAL REPORT 2021

AP-fonden continues to carry out its asset management duties in a

areas outside the investment activities or in those cases where competition between the AP Funds is at risk. The work is conducted within nine functionally-focused collaboration groups whose overall focus is to identify areas with clear potential for collaboration and where cooperation between the AP Funds can result in improved cost efficiency for the Swedish pension system. This collaborative venture also aims to take advantage of the added value it derives from the exchange and sharing of knowledge and experience, and thus provide the AP Funds with a broader and larger base of expertise.

MISSION & ORGANISATION

Role of the Collaboration Council

The Collaboration Council is the collective body whose overall role is to ensure collaborative working between the AP Funds and create the conditions for this to happen. To achieve this, the Collaboration Council has established a common structure and working method with annual plans that are reviewed twice a year. The Council is also responsible for reporting the ongoing work and results of the groups to relevant stakeholders. The work is summarised in a year-end report to the respective CEOs of the AP Funds and is also used as a basis for the government's annual evaluation of the AP Funds. Collaboration takes place in the following areas:

- · Back Office/Business Support
- Compliance
- HR
- IT
- Legal
- Communication
- Reporting
- · Risk and Performance
- · System management.

In addition to these functionally-focused groups, collaboration also takes place through the AP Funds' Council on Ethics (AP1-AP4) and Innovation Forum (AP1-AP4, AP7).



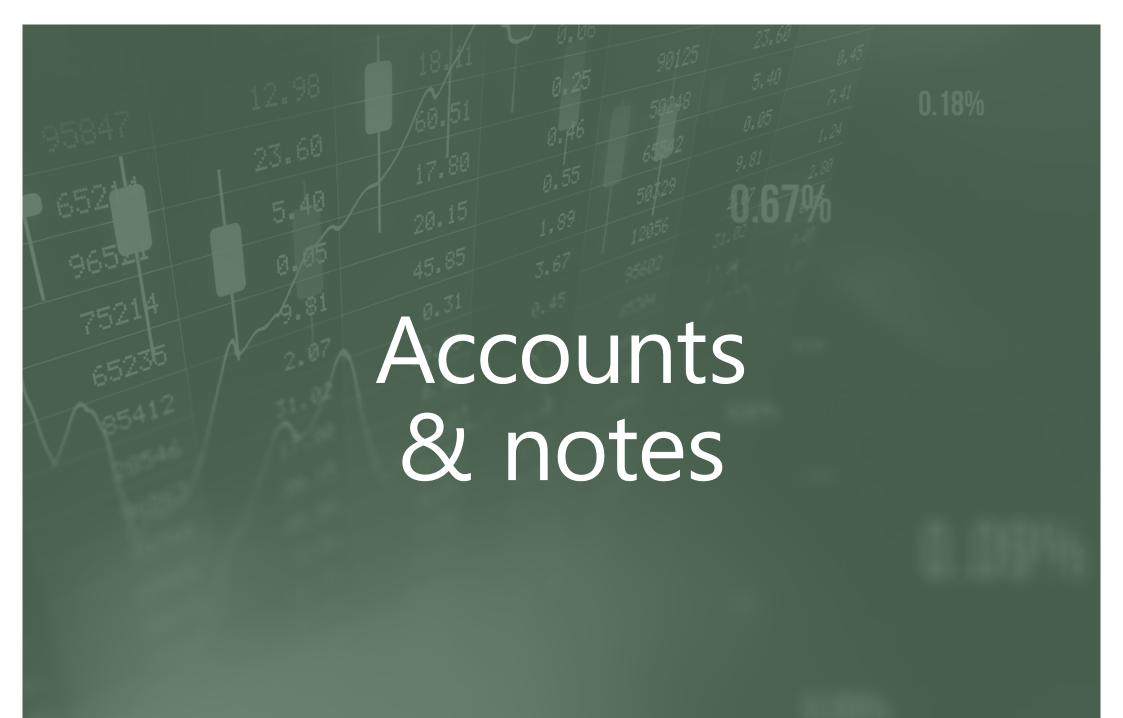
Collaboration projects 2021

In 2021, the collaboration groups continued their work using digital platforms such as Teams and Zoom for meetings and exchanges of information. The digital forums have facilitated and enabled even more effective collaboration and interaction. For large collaboration groups such as Back Office/Business Control, the digital working method has enabled more participants from each AP Fund to participate in training courses, information meetings and discussions.

In a number of respects, the Covid-19 pandemic has led to an increased exchange of experience between the AP Funds.

Procurement and evaluation of products and services is another area of ongoing collaboration for the AP Funds.

In 2021, the collaboration between the AP Funds included the procurement of communication services for the Council on Ethics. Joint investment structures have also been set up between some of the AP Funds, such as the company 4 to 1 Investments, and cooperation on international tax issues. Within the area of IT, the AP Funds have been working collaboratively on information security.



Income statement

Amounts in SEK million	Note	Jan-Dec 2021	Jan-Dec 2020
Operating income			
Net interest income	1	2 866	2 956
Dividends received		5 512	4 214
Net income, listed equities and participations	2	27 949	14 703
Net income, non-listed equities and participations	3	21 307	5 754
Net income, fixed-income securities		-5 123	3 757
Net income, derivative instruments		-797	-2 063
Net income, foreign exchange gains/losses		11 088	-16 033
Commission expenses, net	4	-208	-277
Total operating income		62 594	13 011
Operating expenses			
Personnel expenses	5	-155	-150
Other administrative expenses	6	-90	-85
Total operating expenses		-245	-235
NET RESULT FOR THE YEAR		62 349	12 776

Balance sheet

Amounts in SEK million	Note	31 Dec 2021	31 Dec 2020
ASSETS			
Equities and participations			
Listed	7	195 375	169 880
Non-listed	8	110 315	80 486
Bonds and other fixed-income securities	9	134 740	122 272
Derivative instruments	10	967	10 203
Cash and bank balances		4 459	7 253
Other assets	11	112	959
Prepaid expenses and accrued income	12	1 657	1 383
TOTAL ASSETS		447 625	392 436
FUND CAPITAL AND LIABILITIES			
Liabilities			
Derivative instruments	10	6 161	2 412
Other liabilities	13	199	3 578
Deferred income and accrued expenses	14	220	222
Total liabilities		6 580	6 212
Fund capital	15		
Fund capital at beginning of year		386 224	381 350
Net payments to the national pension system		-7 528	-7 902
Net result for the year		62 349	12 776
Total Fund capital		441 045	386 224
TOTAL FUND CAPITAL AND LIABILITIES		447 625	392 436
Pledged assets and contingent liabilities	16		
Other pledged assets and contingent liabilities	10	7 173	2 823
Commitments		34 085	29 677
Communents		34 003	25 011

MISSION & ORGANISATION

The annual report shall be prepared in accordance with the National Pension Insurance 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.

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 sub-

MACRO

ject 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 2021	Jan-Dec 2020
Interest income		
Bonds and other fixed-income securities	2 856	2 966
Other interest income	42	35
Total interest income	2 898	3 001
Interest expense		
Other interest expense	-32	-45
Total interest expense	-32	-45
Net interest income	2 866	2 956

NOTE 2 Net income, listed equities and participations

Amounts in SEK million	Jan-Dec 2021	Jan-Dec 2020
Net result, listed equities and participations	28 037	14 801
less brokerage commission	-88	-98
Net income, listed equities and participations	27 949	14 703

NOTE 3 Net income, non-listed equities and participations

Amounts in SEK million	Jan-Dec 2021	Jan-Dec 2020
Capital gains, net	5 841	2 527
Unrealised changes in value	15 466	3 227
Net income, non-listed equities and participations	21 307	5 754

External management fees for non-listed assets are recognised as a component of the initial value of the asset and are thus charged to unrealised net income for non-listed assets. Consequently, refunded management fees have a positive impact on unrealised net income.

During the year, a total of SEK 481 (397) million was paid in management fees relating to non-listed assets. Repayment of SEK 641 (388) million was also made during the year and the unrealised profit for non-listed equities and participations was thus impacted by SEK 160 (–9) million.

NOTE 4 Commission expenses, net

Amounts in SEK million	Jan-Dec 2021	Jan-Dec 2020
External asset management fees, listed assets	167	236
Other commission expenses including custodial expenses	41	41
Total	208	277

Commission expenses do not include performance-based expenses. Performance-based expenses for the year totalled SEK 120 (293) million and reduced net income for the respective asset classes.

NOTES

Note 4 cont.

EXTERNAL MANAGEMENT MANDATES AT 31 DECEMBER 2021, SEK MILLION

Mandate	Average assets under management 2021	Market value 31 Dec 2021*	% of Fund capital	External management expense
External discretionary mandates				
Equity mandates				
Active management				
MFS Global equities	7 132	8 039		
APS Chinese A-shares	2 385	2 366		
Cephei Chinese A-shares	3 700	3 998		
UBS Chinese A-shares	3 267	3 279		
Total external discretionary mandates	16 484	17 682	4	94
Investments in listed external funds				
Equity funds	7 502	7 570		
Fixed-income funds	4 266	4 117		
Total investments in listed external funds	11 768	11 687	3	73
Investments in non-listed funds	41 745	50 413	11	
Total capital assets under external management and management costs	69 997	79 782	18	167

^{*} Market value including allocated liquidity, derivative instruments and accrued interest.

NOTE 5 Personnel

		2021			2020	
Number of employees	Total	Men	Women	Total	Men	Women
Average number of employees	69	45	24	72	47	25
Number of employees, 31 Dec	68	44	24	71	47	24
Number of persons in Executive Management, 31 Dec	6	4	2	6	4	2

Social costs

incl. special

NOTES

Note 5 cont.

Personnel costs in SEK thousands, 2021	Salaries and fees	Variable remuneration	Pension costs	Of which salary swap	employer's contribution	Total
Chair of the Board	215	_	_	_	70	285
CEO	4 386	_	1 622	254	1 788	7 796
Board of Directors, excluding Chair	893	_	_	_	179	1 072
Executive Management Team, excl. CEO						
Chief Investment Officer (CIO)	3 110	_	1 065	444	1 258	5 433
Head of Business Support	1 885	_	1 133	_	869	3 887
General Counsel	2 449	_	753	102	989	4 191
Head of Communications and Governance	1 963	_	745	127	810	3 518
Head of Performance and Risk Management	2 031	-	761	76	825	3 617
Other employees	61 863	5 959	27 631		27 659	123 112
Total	78 795	5 959	33 710		34 447	152 911
Other personnel costs						2 246
Total personnel costs						155 157
Personnel costs in SEK thousands, 2020	Salaries and fees	Variable remuneration	Pension costs	Of which salary swap	Social costs incl. special employer's contribution	Total
Chair of the Board	215	_	_	_	70	285
CEO	4 264		1 556	254	1 740	7 560
Board of Directors, excluding Chair	925	-	_	_	189	1 114
Executive Management Team, 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

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 a Member has received SEK 25 000 for work in the Risk Committee. The Chair has received SEK 20 000 and a Members has received SEK 15 000 for work in the Audit Committee.

Other directorships held by Members of the Board See page 105.

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 52 (16) 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 29 (26) thousand, Head of Business Support SEK 4 (4) thousand, General Counsel SEK 4 (4) thousand, Head of Communications and Governance SEK 4 (4) thousand, Head of Performance and Risk Management SEK 5 (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.

Note 5 cont.

Salary swap

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

MACRO

Variable remuneration

The Board of Directors has approved a variable remuneration scheme 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 an overall positive return. The scope of the scheme is described on the Fund's website. During the year, the Board of Directors decided to end the incentive scheme from 2022.

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 of its employees. For 2021, 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 remu-

neration 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 is in compliance with Swedish Government guidelines on remuneration, apart from the above mentioned exception regarding period of notice. The combined costs incurred in connection with termination of employment are well within the limits defined in the Swedish Government guidelines. 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 2021	Jan-Dec 2020
Cost of premises	7	7
Information and IT expenses	65	61
Purchased services	12	10
Other expenses	6	7
Total other administration expenses	90	85
Fees to auditors		
Audit services		
PwC	0.81	0.81
Non-audit services		
PwC	0.00	0.00
Total paid to PwC	0.81	0.81

NOTE 7 Equities and participations, listed

Amounts in SEK million	31 Dec 2021	31 Dec 2020
Swedish equities	44 510	36 741
Foreign equities	143 295	126 147
Participation in foreign funds*	7 570	6 992
Total	195 375	169 880
* 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 111 per cent of the market value of loaned securities.

In 2021, income from securities lending totalled SEK 15 million. This made a positive contribution to the Fund's relative return and is recognised as interest income in the income statement. Collateral received for securities on loan is reported in Note 16.

The 20 largest Swedish and foreign holdings in terms of value are listed on pages 98–100.

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

NOTE 8 Equities and participations, non-listed

MACRO

Amounts in SEK million	31 Dec 2021	31 Dec 2020
Swedish equities in associated companies	26 082	20 956
Foreign equities in subsidiaries and associated companies	29 596	24 583
Other non-listed Swedish equities and participations	_	-
Other non-listed foreign equities and participations	54 637	34 947
Total	110 315	80 486

Amounts in SEK million	Corp. Reg.	Registered office	No. of equities	Share of capital/voting rights, %	31 Dec 2021 Fair value	31 Dec 2020 Fair value	Own capital	Result
Swedish equities in associated companies								
Vasakronan Holding AB	556650-4196	Stockholm	1 000 000	25	25 253	20 956	85 290	16 359
4 to 1 Investments AB	559313-2490	Stockholm	6 250	25	1	-	2	-1
4 to 1 Investments KB	969795-3033	Stockholm		25	828	-	3 314	0
Total Swedish equities in associated companies					26 082	20 956		
Foreign equities in subsidiaries and associated companies								
Chaptwo S.à.r.l.		Luxembourg		100	3 347	2 650		
Lewis & Clark Timberlands LLC		USA		24	1 349	1 212		
Molpus Nordic Woodlands L.P.		USA		99	1 283	1 273		
TIAA-CREF Global Agriculture LLC		USA		23	2 998	2 576		
TIAA-CREF Global Agriculture II LLC		USA		25	5 923	5 070		
U.S. Office Holdings L.P.		USA		41	5 171	4 337		
U.S. Core Office APTWO L.P. *		USA		99	6 588	5 528		
U.S. Office APTWO JV II L.P.**		USA		99	2 937	1 937		
Total foreign equities in subsidiaries and associated companies					29 596	24 583		

^{*} 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.

Amounts in SEK million	Registered office	Share of capital, %	31 Dec 2021 Acquisition value	31 Dec 2020 Acquisition value
Five largest holdings in other non-listed foreign equities and participations				
Generate Capital, Inc.	USA	7	1 336	839
TIAA European Farmland Fund LP	Cayman Islands	43	992	779
Gateway VI Co-Investment account (AP2) L.P.	Cayman Islands	10	988	986
Riverstone Pattern Energy III, L.P.	USA	13	799	790
Teays River Investments, LLC	USA	6	665	665

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

NOTES

NOTE 9 Bonds and other fixed-income securities

	31 Dec 2021	31 Dec 2020
Amounts in SEK million	Fair value	Fair value
Breakdown by issuer category		
Swedish Government	4 691	3 856
Swedish municipalities	453	459
Swedish mortgage institutions	4 994	8 121
Other Swedish issuers		
Financial companies	11 227	6 337
Non-financial companies	296	1 734
Foreign governments	49 595	43 068
Other foreign issuers	63 483	58 690
Deposits	1	7
Total	134 740	122 272
Breakdown by type of instrument		
Other bonds	128 441	114 970
Non-listed loans	2 177	1 561
Participation in foreign fixed-income funds	4 121	5 734
Deposits	1	7
Total	134 740	122 272

OVERVIEW

MISSION & ORGANISATION

INVESTMENTS

NOTES

NOTE 10 Derivative instruments

MACRO

		31 Dec 2021		31 Dec 2020	
Amounts in SEK million	Fair v Pos	alue tive	Fair value Negative	Fair value Positive	Fair value Negative
Equity-related instruments					
Forward contracts		55	-	-	_
Total		55	-	-	_
of which cleared		-	-	-	-
Interest-related instruments					
FRAs/Futures		-	8	0	-
Swaps		-	108	0	201
Total		_	116	0	201
of which cleared		-	-	-	-
Currency-related instruments					
Options, held		18	_	34	_
Options, pledged		-	16	-	30
Forward contracts	3	94	6 029	10 169	2 181
Total		912	6 045	10 203	2 211
of which cleared		-	_	0	=
Total derivative instruments		67	6 161	10 203	2 412

Derivative positions with a negative value of SEK 108 million have a longer maturity than 12 months. The positions relate to swap agreements, which mature in 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. For other put options issued, the Fund has no 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 in 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 2021, derivatives were primarily used in the following

- 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.
 These mandates are able to act freely 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, which means there is exposure to counterparty and delivery risks.

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.

NOTES

NOTE 11 Other assets

31 Dec 2021	31 Dec 2020
104	952
8	7
112	959
	104

NOTE 12 Prepaid expenses and accrued income

Amounts in SEK million	31 Dec 2021	31 Dec 2020
Accrued interest income	1 192	989
Accrued dividends	177	200
Restitutions	265	173
Other prepaid expenses and accrued income	23	21
Total	1 657	1 383

NOTE 13 Other liabilities

Amounts in SEK million	31 Dec 2021	31 Dec 2020
Outgoing payments, unsettled transactions	0	1
Accounts payable	10	29
Other liabilities	189	3 548
Total	199	3 578

NOTE 14 Deferred income and accrued expenses

Amounts in SEK million	31 Dec 2021	31 Dec 2020
Accrued external management fees	33	47
Accrued interest expense on currency forwards	153	140
Other accrued expenses	34	35
Total	220	222

NOTE 15 Fund capital

Amounts in SEK million	31 Dec 2021	31 Dec 2020
Fund capital at beginning of year	386 224	381 350
Net payments to the national pension system		
Pension contributions received	75 597	73 872
Pension disbursements to the Swedish Pensions Agency	-82 885	-81 564
Transfer of pension entitlements to EC	-1	-2
Adjustment of pension entitlements regarding previous years	-3	2
Administration contribution to the Swedish Pensions Agency	-236	-210
Total net payments to the pension system	-7 528	-7 902
Net result for the year	62 349	12 776
Fund capital at year-end	441 045	386 224

NOTE 16 Pledged assets and contingent liabilities

Amounts in SEK million	31 Dec 2021	31 Dec 2020
Other pledged assets and contingent liabilities		
Securities on loan against cash and securities collateral received*	858	669
Collateral pledged in connection with exchange-cleared derivatives	326	1 484
Collateral pledged in connection with OTC derivatives (CSA contract)**	5 989	670
Total	7 173	2 823
Commitments		
Commitments regarding future payments, non-listed holdings	29 585	25 177
Subscription commitments, certificates	4 500	4 500
New issue guarantee	_	-
Total	34 085	29 677

- * Collateral received for securities on loan is SEK 955 (743) million.
- ** Book value of liabilities relating to cash collateral received for OTC derivatives is SEK 117 (3 249) million. Collateral received in the form of securities for OTC derivatives SEK 125 (3 291) million.

NOTES

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 overnight deposits, short-term certificates of deposit and similar instruments.

For other OTC derivatives, valuations from external parties are used exclusively without subjective parameters from the Fund. At year-end 2021, 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 (14.9 per cent of the total portfolio), private equity funds (9.3 per cent of the total portfolio), sustainable infrastructure (0.9 per cent of the total portfolio) and private debt (0,1 per cent of the total portfolio).

The value of investments in non-listed private equity funds and real-estate 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.

The managers mainly use discounted cash flows, the net asset value method and multiple valuation to calculate fair market values. Valuation of

VALIDATION OF VALUATIONS WITH DELAYED REPORTING, SEK MILLION



Analysis of the impact on the income statement as a result of delayed publication shows that Andra AP-fonden's valuations in the official year-end accounts are lower than those in the final report from the fund managers.

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 2021, the valuation made on 30 September 2021 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 delay has had since December 2017 shows that Andra AP-fonden's valuation in the official year-end accounts has been lower than that in the final report 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

TAIR VALUE III ERARGITI, DER IIII				
		31 Dec	2021	
	Level 1	Level 2	Level 3	Total fair value
Equities and participations, listed	187 762	7 613	_	195 375
Equities and participations, non-listed	_	_	110 315	110 315
Bonds and other fixed-income securities	128 444	4 118	2 177	134 739
Derivative assets	-	967	-	967
Derivative liabilities	_	-6 161	_	-6 161
Financial assets and liabilities, valued at fair value	316 206	6 537	112 492	435 235*
		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*

- * 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 income, non-listed equities and participations

NOTES

Note 17 cont.

CHANGE DURING 2021 IN LEVEL 3 SEK MILLION

	Equities and participations, listed	Equities and participations, non-listed	Bonds and other fixed-income assets	Total
Carrying value at beginning of year	_	80 486	1 561	82 047
Invested	_	11 428	526	11 954
Sold/repaid during the year	_	-9 430	_	-9 430
Realised profit	_	5 844	_	5 844
Unrealised change in fair value	-	21 987	90	22 077
Reclassifications	_	_	_	-
Carrying value at end of year	_	110 315	2 177	112 492

CHANGE DURING 2020 IN LEVEL 3, SEK MILLION

	Equities and participations, listed	Equities and participations, non-listed	Bonds and other fixed-income assets	Total
Carrying value at beginning of year	-	78 168	1 397	79 565
Invested	_	8 973	271	9 244
Sold/repaid during the year	-	-4 644	_	-4 644
Realised profit	-	2 502	-	2 502
Unrealised change in fair value	-	-4 513	-107	-4 620
Reclassifications	-	-	_	-
Carrying value at end of year	-	80 486	1 561	82 047

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. A 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. In Andra AP-fonden's experience, most fund managers generally adopt a conservative approach in their valuations, something that is especially apparent in markets with 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 dividend yield requirement of +/-0.25 per cent of the companies' reported pretax profit/loss is estimated at SEK -4.0 billion and SEK 4.4 billion respectively.

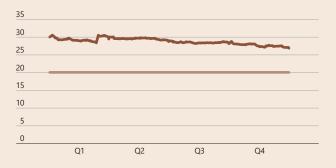
NOTES

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 AP 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 2021, 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 20–25 per cent. The liquidity risk on the liability side is very small and consists of derivative liabilities.

For further risk data, see section on risk management, pages 70–75.

LIQUIDITY RISK, %



Proportion 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 ARE SUBJECT TO OFFSETTING AGREEMENTS

				Amounts not prese in the balance s				
31 Dec 2021	Gross amount	Presented net in the balance sheet	Net amount in the balance sheet	Set-off of financial instruments by agreement	Collateral received/ given	Net amount after set-off	Other*	Total in balance sheet
ASSETS								
Derivative	912	_	912	-258	-303	351	55	967
Total	912	-	912	-258	-303	351	55	967
LIABILITIES								
Derivative	6 152	_	6 152	-258	-5 989	-95	8	6 160
Total	6 152	_	6 152	-258	-5 989	-95	8	6 160

				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 by 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

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

NOTES

NOTE 19 Related parties

The purpose of this note is to disclose 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 2021	31 Dec 2020
Related parties, voting rights		
Vasakronan Holding AB, 25 procent		
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 procent	. 300	. 300
Interest income	57	52
Shareholder loans including accrued interest	2 189	1 570
Shareholder contribution/repayment during the year	310	133
Investment commitment	1 026	2 015
4 to 1 Investments AB, 25 per cent		
Shareholder contribution	1	-
4 to 1 Investments KB, 25 per cent		
Capital contribution	828	-

The Annual Report for 2021 has been approved by the Board of Directors

Göteborg 9 February 2022

Jan RoxendalLin LerpoldMartina Björkman NyqvistChairVice Chair

Hanse Ringström Agneta Wallmark Johnny Capor

Kristina Mårtensson Åsa Erba Stenhammar Christer Käck

Our audit report was submitted on 9 February 2022

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, company reg. no. 857209-0606

Auditor's report on the annual financial statements *Opinion*

We have audited the annual report of Andra AP-fonden for 2021. The Fund's annual report is presented on pages 57 to 95 of this document.

In our opinion, the annual report has been prepared in accordance with the National Pension Insurance Funds (AP-funds) Act (2000:192) and gives a true and fair view, in all material respects, of the financial position of Andra AP-fonden at 31 December 2021 and of its financial performance for the year in accordance with the requirements of 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 56 and 98 to 107.

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 other information and, in doing so, consider whether the other information is materially inconsistent with the annual report or our knowledge obtained in the audit otherwise appears to be materially misstated.

If, based on the work we have performed with regard to this information, we conclude that there is a material misstatement of this 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 error.

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 error, and to issue an auditor's report that includes our opinion. 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 error 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 error, 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
 error, 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 principles 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 whether there are any observations otherwise about the Board's and the CEO's management of Andra AP-fonden for 2021.

Our audit work has not identified any issues in respect of the inventory of the assets or their management.

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 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.

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 fund assets 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 2021 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 identify actions or omissions 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.

Göteborg 9 february 2022

Helena Kaiser de Carolis

Peter Nilsson

Authorised Public Accountant

Appointed by the Swedish Government

Authorised Public Accountant

Appointed by the Swedish Government

Equities, participations and fixed-income securities

ANDRA AP-FONDEN'S 20 LARGEST SWEDISH SHAREHOLDINGS*

Hexagon B 0.42 11 485 500 1 650 0.31 T Consumer Co	Company name	Share of capital, %	Quantity	Market value, SEK million	Share of votes, %	Sector
Evolution Gaming Group 0.58 1 255 564 1 615 0.58 discretionary goods Hennes & Mauritz B 0.54 8 926 133 1 590 0.26 Consumer goods SEB A 0.58 12 486 417 1 571 0.58 Finance Swedbank A 0.75 8 526 939 1 553 0.75 Finance Volvo B 0.36 7 382 485 1 548 0.12 Industry Essity 0.66 4 669 373 1 379 0.37 Consumer goods Investor B 0.18 5 578 102 1 270 0.04 Finance Epiroc 0.45 5 486 138 1 257 0.64 Industry Sandvik 0.38 4 733 186 1 196 0.38 Industry Husqvarna B 1.38 7 980 093 1 156 0.51 Consumer goods Atlas Copco A 0.15 1 787 756 1 119 0.20 Industry Assa Abloy B 0.31 3 417 528 944 0.21 Industry	Hexagon B	0.42	11 485 500	1 650	0.31	IT
SEB A 0.58 12 486 417 1 571 0.58 Finance Swedbank A 0.75 8 526 939 1 553 0.75 Finance Volvo B 0.36 7 382 485 1 548 0.12 Industry Essity 0.66 4 669 373 1 379 0.37 Consumer goods Investor B 0.18 5 578 102 1 270 0.04 Finance Epiroc 0.45 5 486 138 1 257 0.64 Industry Sandvik 0.38 4 733 186 1 196 0.38 Industry Husqvarna B 1.38 7 980 093 1 156 0.51 Consumer goods Atlas Copco A 0.15 1 787 756 1 119 0.20 Industry Assa Abloy B 0.31 3 417 528 944 0.21 Industry Fastighets AB Balder B 0.76 1 415 862 923 0.49 Real estate Embracer Group 0.74 7 984 295 771 0.47 Communication Elec	Evolution Gaming Group	0.58	1 255 564	1 615	0.58	
Swedbank A 0.75 8 526 939 1 553 0.75 Finance Volvo B 0.36 7 382 485 1 548 0.12 Industry Essity 0.66 4 669 373 1 379 0.37 Consumer goods Investor B 0.18 5 578 102 1 270 0.04 Finance Epiroc 0.45 5 486 138 1 257 0.64 Industry Sandvik 0.38 4 733 186 1 196 0.38 Industry Husqvarna B 1.38 7 980 093 1 156 0.51 Consumer goods Atlas Copco A 0.15 1 787 756 1 119 0.20 Industry Assa Abloy B 0.31 3 417 528 944 0.21 Industry Trelleborg B 1.44 3 896 132 927 0.74 Industry Fastighets AB Balder B 0.76 1 415 862 923 0.49 Real estate Embracer Group 0.74 7 984 295 771 0.47 Communication <td< td=""><td>Hennes & Mauritz B</td><td>0.54</td><td>8 926 133</td><td>1 590</td><td>0.26</td><td>Consumer goods</td></td<>	Hennes & Mauritz B	0.54	8 926 133	1 590	0.26	Consumer goods
Volvo B 0.36 7 382 485 1 548 0.12 Industry Essity 0.66 4 669 373 1 379 0.37 Consumer goods Investor B 0.18 5 578 102 1 270 0.04 Finance Epiroc 0.45 5 486 138 1 257 0.64 Industry Sandvik 0.38 4 733 186 1 196 0.38 Industry Husqvarna B 1.38 7 980 093 1 156 0.51 Consumer goods Atlas Copco A 0.15 1 787 756 1 119 0.20 Industry Assa Abloy B 0.31 3 417 528 944 0.21 Industry Trelleborg B 1.44 3 896 132 927 0.74 Industry Fastighets AB Balder B 0.76 1 415 862 923 0.49 Real estate Embracer Group 0.74 7 984 295 771 0.47 Communication Electrolux Professional 3.89 11 175 502 701 3.11 Industry <tr< td=""><td>SEB A</td><td>0.58</td><td>12 486 417</td><td>1 571</td><td>0.58</td><td>Finance</td></tr<>	SEB A	0.58	12 486 417	1 571	0.58	Finance
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	Addnode Group	4.35	1 464 152	628	3.44	IT
SHR A 0.32 6.318.879 6.18 0.32 Finance	NCAB Group	4.21	7 100 440	622	4.21	IT
0.52 0.510 075 010 0.52 Tillance	SHB A	0.32	6 318 879	618	0.32	Finance

^{*} 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

Name	Holding, participations	Fair value, SEK million
Generation IM Global Equity Fund Class I 20071201	518 017	3 981
Generation IM Global Equity Fund Class I 20090401	266 258	2 056
AQR Merger Arbitrage Fund	1 021 369	1 276
Elementum Zephyrus Total Return Cat Bond	96 018	1 145
CS Iris S Fund Ltd	75 807	861
AQR Opportunis Convertible Arbitrage Offshore Fund	525 937	735
Generation IM Global Equity A Shares LTA20 090401	34 543	257
Ares Strategic Investment Partners IV	1 377 752	12
CVC Credit Partners	3 056	4

EQUITIES, PARTICIPATIONS AND FIXED-INCOME SECURITIES

ANDRA AP-FONDEN'S 20 LARGEST FOREIGN SHAREHOLDINGS*

Company name	Quantity	Market value, SEK million	Sector
Nordea Bank	15 766 305	1 742	Finance
AstraZeneca	1 011 912	1 075	Healthcare
ABB Ltd	2 889 011	998	Industry
Kweichow Moutai	342 301	997	Consumer goods
China Merchants Bank	8 959 934	620	Finance
Autoliv	625 895	588	Consumer goods
Thermo Fisher Scientific	77 023	465	Healthcare
Accenture	115 455	433	IT
Roche Holding	106 684	402	Healthcare
Schneider Electric	224 756	399	Industry
			Consumer
Better Collective	1 937 139	382	discretionary goods
Visa	179 077	351	IT
Nestlé	262 011	332	Consumer goods
Jiangsu Hengrui Medicine	4 478 540	323	Healthcare
Comcast	699 307	319	Communication
Yunnan Baiyao Group	2 140 917	318	Healthcare
Wanhua Chemical Group Co Ltd	2 103 794	302	Material
Abbott Laboratories	230 101	293	Healthcare
Check Point Software Tech	276 416	292	IT
Merck	124 795	292	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 #1590	1 106
Stadshypotek AB #1591	1 049
Swedish Covered SBAB #146	1 024
Nordea Hypotek #5533	952
Swedish Covered SBAB #147	925

Global credits, five largest holdings

Bond	Fair value, SEK million
Aercap	804
Exelon	562
Mondelez	502
CVS Health	469
Nvidia	459

Global government bonds, five largest holdings

Bond	Fair value, SEK million
FRANCE O.A.T. FRTR 1 3/4 06/25/39	864
JAPAN GOVT 10-YR JGB 0.1 12/20/30	713
JAPAN GOVT 10-YR JGB 0.1 03/20/28	636
JAPAN GOVT 2-YR JGB 0.1 03/01/23	552
JAPAN GOVT 30-YR JGB 0.7 12/20/50	475

Detailed information about Andra AP-fonden's holdings in fixed-income securities is available on the Fund's website.



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 27 May 2021, the Government decided on a new Board, appointing Agneta Wallmark as a new Member to succeed Ole Settergren. To date, the Government has chosen to implement

A /

twelve-month mandate periods for the Board Members, whereby current appointments remain in effect until the Fund's income statement and balance sheet for 2021 have been approved.

ACCOUNTS AND NOTES

FUND GOVERNANCE

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 has received SEK 30 000 and a Member has 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.

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. A longer meeting was held in October which included the Fund's

Member of the Board	Remuneration Committee	Risk Committee	Audit Committee	total no. of meetings	Comments
Jan Roxendal	X		Х	6/6	
Lin Lerpold	Х			6/6	
Åsa Erba Stenhammar				6/6	
Ole Settergren				1/2	Left the Board in May 2021
Agneta Wallmark				4/4	Appointed in May 2021
Christer Käck		Х		6/6	
Johnny Capor			Х	6/6	
Kristina Mårtensson				6/6	
Martina Björkman Nyqvist				6/6	
Hanse Ringström		Х		6/6	

MISSION & ORGANISATION

vision for 2021, the business plan, a macroeconomic discussion on post Covid-19 and an external presentation on the EU Commissions's sustinability regulation. 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

INVESTMENTS

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. Information on discussions in 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 2021, 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 development 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 Head of Compliance 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 2021, 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 reporting. During the year, the Committee's main focus has been monitoring the internal audit services decided by the Board and ongoing reporting on compliance. 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 2021. 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.

FUND GOVERNANCE REPORT

Audit

Andra AP-fonden's auditors are appointed by the Swedish Government. On 27 May 2021, 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 2021.

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 that the Fund has prepared a Sustainability Report as well as 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 2021 entailed an audit of the Fund's processes and procedures for non-listed investments, with a focus on the administrative process within business support. The functionality of a selection of controls, linked to process-mapped material risks, has also been reviewed. Reporting of the completed audit takes place in February 2022.

Board of Directors



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.



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.



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.
Self-employed. Member of the
Board of Payer Tec AB, SEB Ukraina
and Sweden China Trade Council,
etc. Born 1948.



Agneta Wallmark
Member of the Board since 2021.
Degree of Master of Laws, M.Sc.
(Econ). Head of Group Treasury at
Telia Company. Born 1960.

OVERVIEW MACRO INVESTMENTS SUSTAINABILITY DIRECTORS' REPORT ACCOUNTS AND NOTES **FUND GOVERNANCE** MISSION & ORGANISATION

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: Board Member of STIM and Chair of The Institute of Quantitative Research Europe (INQUIRE). Born 1957. Hans Fahlin will leave AP2 on February 28, 2022. In the spring of 2022 he will be succeeded by Erik Kleväng Callert.



Martin Jonasson

General Counsel. Secretary to the Board. Employed since 2001. Other current roles: Member of the Foundation Friends of the Blind. Born 1964.



Ulrika Danielson

Head of Communications and Corporate 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.

Auditors

Helena Kaiser de Carolis

Authorised Public Accountant, PwC.

Peter Nilsson

Authorised Public Accountant, PwC.

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.

