



AP2

Andra
AP-fonden

ANNUAL REPORT 2022

Andra AP-fonden is one of five buffer funds within the Swedish pension system.

AP2 are specialists in the Swedish pension system, and fulfil their mission by adapting asset management to the system's needs.

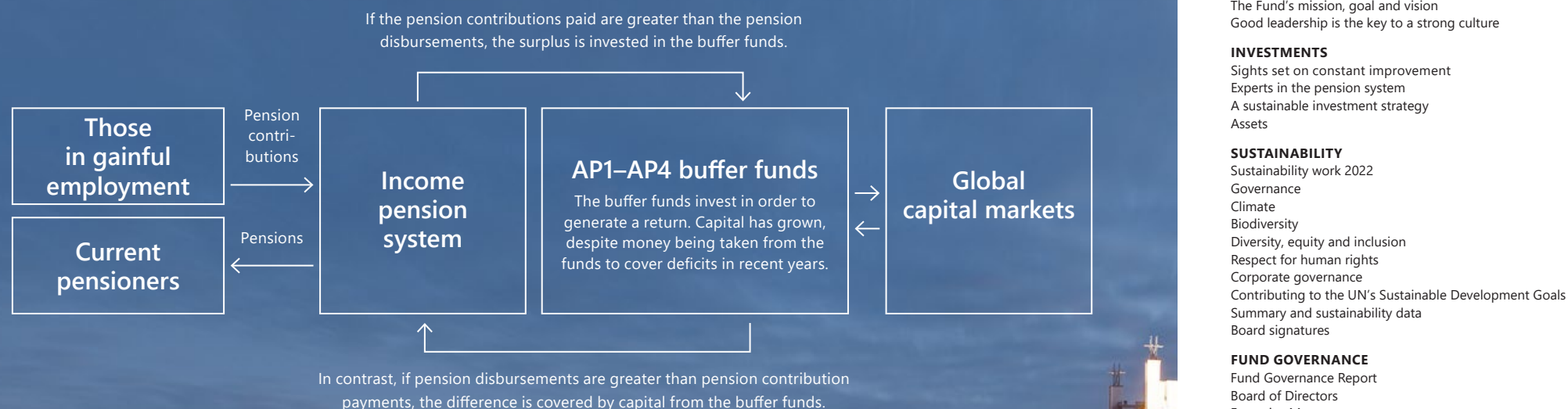


Unless otherwise stated, the portfolio assets referred to in this report are 'allocated exposures'. In addition to recognised fair values, these also refer to allocated (but not yet invested) liquidity for the specific class of asset, and other assets held as collateral for positions already taken in derivative instruments. Classes of assets, derivative instruments and liquid funds are reported individually in the balance sheet at their fair values. All monetary amounts are expressed in Swedish kronor and abbreviated as SEK k (thousand), SEK million or SEK m (million) and SEK billion or SEK bn (billion), in accordance with the Language Council of Sweden's recommendation. Figures in parentheses refer to the preceding year. In the body text, AP2 may be used instead of Andra AP-fonden.

Andra AP-fonden's Annual Report covers the period January–December 2022 and was published on 17 February 2023.

Andra AP-fonden contributes to pension security

The income pension system is separate from the national budget, and is funded by pension contributions paid by those gainfully employed. The system's buffer capital is managed by the independent AP Funds, whose returns contribute to pension security.

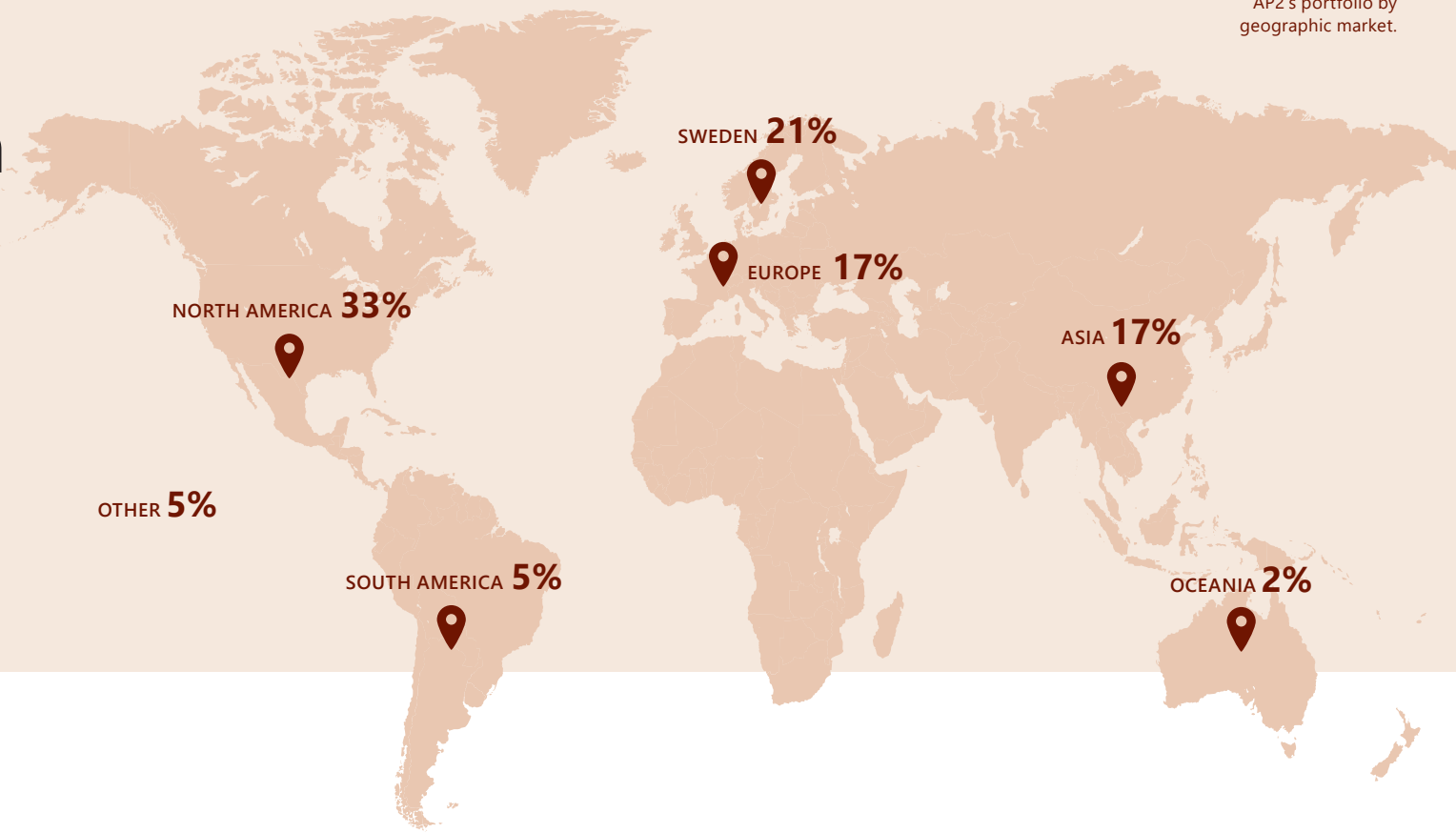


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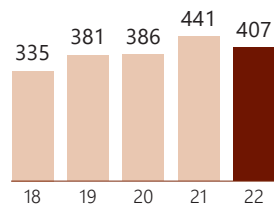
AP2's portfolio by geographic market.

Andra AP-fonden – a global asset manager



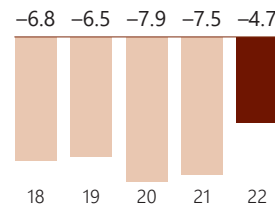
Andra AP-fonden is one of Northern Europe's largest pension funds, managing SEK 407.1 billion across almost all asset classes and around the world. The Fund's mission, assigned by the Swedish Parliament, is to maximise the return on Swedish pension capital for the long term.

The year in brief



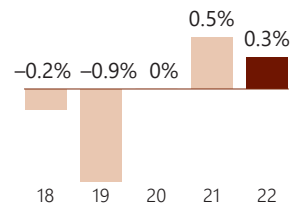
FUND CAPITAL

Fund capital totalled **SEK 407.1 (441.0) billion** at 31 December 2022.



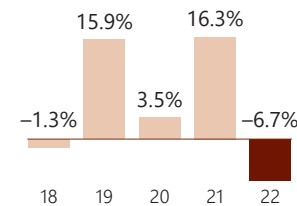
NET OUTFLOWS TO THE PENSION SYSTEM

Net outflows to the national pension system of SEK **-4.7 (-7.5) billion**.



RELATIVE RETURN

The relative return on the Fund's total portfolio, excluding alternative investments and expenses, amounted to **0.31 (0.50) per cent**.



TOTAL RETURN

The return on the total portfolio was **-6.7 (16.3) per cent**, including commission expenses and operating expenses. Excluding these costs, the portfolio returned **-6.6 (16.4) per cent**.

2022 in brief

The financial markets were volatile and performed poorly. Both equities and fixed-income assets fell in value, due in part to higher interest rate levels. AP2's wide-ranging portfolio mitigated the impact of the turbulent markets, with a total return of -6.7 per cent generated after expenses. At 31 December 2022, the Fund's capital stood at SEK 407.1 billion. The net result for the year of SEK -29.2 billion mainly reflects the performance of Swedish and foreign developed equity markets. The Fund's alternative investments generated a positive return of 11.8 per cent (5.1 per cent including currency hedging earnings). The Fund's relative return was 0.31 per cent.

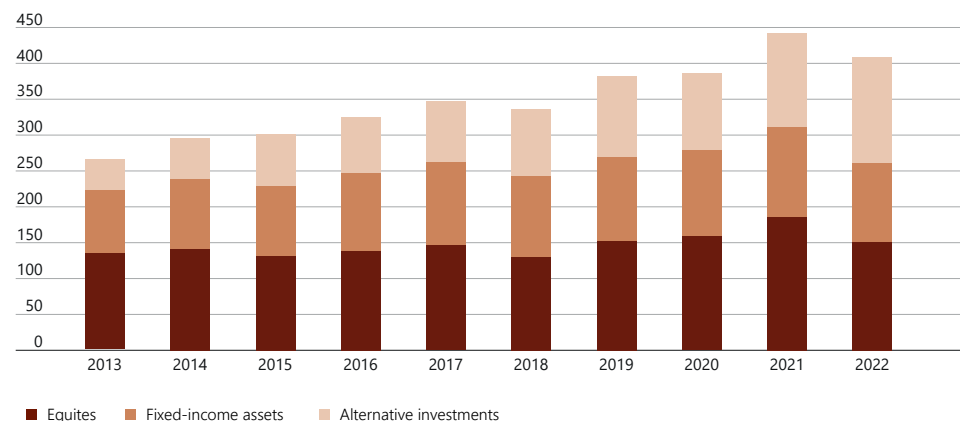
Andra AP-fonden's net outflow for the year to the national pension system was SEK 4.7 billion.

A sustainable investment strategy

AP2 has continued to build on its sustainability work during the year. This has occurred in all, now five, priority focus areas. One key focus has been a review and revision of the Fund's sustainability policy.

Further investments have been made in sustainable infrastructure. The Fund has drawn up ten criteria that forest investments must satisfy to be classified as a targeted sustainability investment. The market value of the Fund's targeted sustainability investments was SEK 35.4 billion at year-end 2022.

THE FUND'S CAPITAL GROWTH, SEK BILLION



Five-year overview, financial key ratios

	2022	2021	2020	2019	2018
Fund capital, flows and results, SEK million					
Fund capital	407 112	441 045	386 224	381 350	334 828
Net outflows to the national pension system	-4 689	-7 528	-7 902	-6 520	-6 773
Net result for the year	-29 244	62 349	12 776	53 042	-4 330
Return, %					
Return on total portfolio before commission expenses and operating expenses	-6.6	16.4	3.7	16.1	-1.2
Return on total portfolio after commission expenses and operating expenses	-6.7	16.3	3.5	15.9	-1.3
Annualised return after commission expenses and operating expenses, 5 years	5.2	8.5	7.3	7.4	6.9
Annualised return after commission expenses and operating expenses, 10 years	7.4	9.5	7.7	8.4	8.8
Risk, %					
Standard deviation ex-post, total portfolio ¹	7.1	4.2	6.2	6.4	7.2
Sharpe ratio ex-post, total portfolio	neg	3.9	0.4	4.0	neg
Expense ratio as % of managed capital					
Expense ratio, incl. commission expenses	0.11	0.11	0.14	0.15	0.14
Expense ratio, excl. commission expenses	0.06	0.06	0.06	0.07	0.06
Currency exposure, %					
	23	34	34	34	32
Andra AP-fonden's listed equity portfolio²					
Carbon intensity relative to ownership share of the companies' market value (tCO ₂ e/SEK million)	6.97	6.23			
Market value of the Fund's portfolio covered by CO ₂ e data (SEK billion)	151	187			
Corporate governance					
Number of nomination committees	9	8			
Voting at general meetings, Sweden	121	134			
Voting at general meetings, foreign	1 261	1 092			

¹ Calculated on a 10-year quarterly return.

² Carbon measurements as from and including 2020 are based on a broader universe of carbon data and a refined method of estimating greenhouse gas emissions from non-reporting companies. As companies in the portfolio improve and increase their reporting of CO₂e data, AP2 also revises historical data. There may therefore be deviations in comparison with previous reports.



Pension system development

The income pension system is a distribution system in which the role of the buffer capital is to manage the difference between pension contributions and pension disbursements. The system also has a built-in balancing mechanism to guarantee stability.

The AP Funds a buffer in the pension system

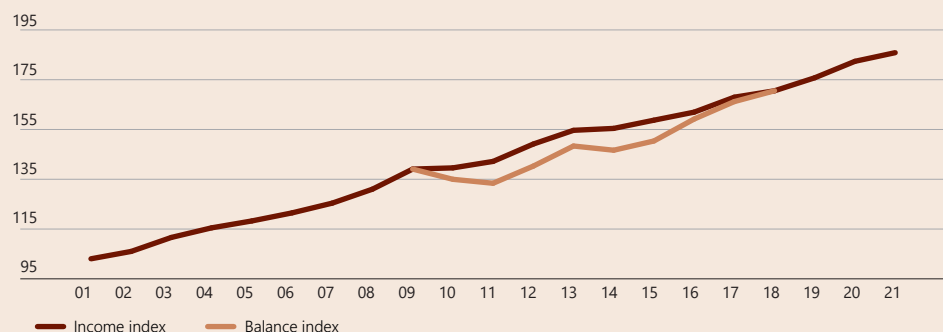
When the system was established in 2001, contributions exceeded pension disbursements, resulting in an inflow of capital to the buffer funds. Since 2009, however, the opposite has been true, as the large cohorts born in the 1940s began retiring. The latest forecasts assume that pension disbursements will exceed contributions for another couple of decades, which means that the buffer capital will continue to be used to cover the difference.

Automatic balancing

If the system's liabilities exceed assets, the system's built-in balancing mechanism is activated, applying a 'brake' to pension development. The first automatic balancing took place in 2008, when the balance sheet ratio fell to below 1 for the first time. This was caused by the significant negative return on the buffer capital as a result of the financial crisis. A rebalancing period began in 2010 and the system only returned to balance in 2018.

The financial position of the pension system has strengthened in recent years and the balance sheet ratio is higher than ever before. The AP Funds' high returns over approximately the last 10 years have helped financially strengthen the pension system, and the balance sheet ratio reached a record high of 1.1202 in 2021.

CHANGE IN BALANCE INDEX



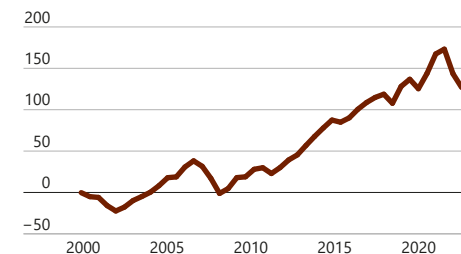
Returns performance

An effective portfolio is a portfolio that has the highest return possible for a given level of risk. Returns on similar types of assets usually differ. Total risk can be reduced by ensuring the Fund's capital is diversified across different assets and asset classes.

Overall, the performance of the return has been positive since the Fund started. During particular periods, risk has sometimes resulted in a negative return, for example during the dot-com bubble, the financial crisis, the eurozone crisis, the pandemic and, most recently, the war in Ukraine and the sharp rise in inflation.

In the past 10 years, AP2 has generated a return of 104.8 per cent, corresponding to an average annual return of 7.4 per cent.

ACCUMULATED REAL RETURN SINCE INCEPTION, %

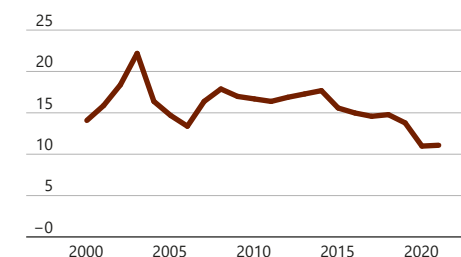


Expense trend

To ensure the highest possible return after costs, in relation to the risk taken, the Fund has a strong focus on cost-effective asset management.

Costs have been reduced as the Fund increasingly manages capital in-house. In 2021, the Fund reduced costs significantly by ending a number of external mandates. The expense ratio for 2022, including commission expenses, was unchanged from the previous year, at 0.11 per cent. The expense ratio, excluding commission expenses, was also unchanged at 0.06 per cent.

EXPENSE RATIO SINCE INCEPTION, %



Eva Halvarsson CEO, Andra AP-fonden

A tumultuous year and a changing world

2022 was a turbulent and tumultuous year. On 24 February Russia invaded Ukraine. Above all, this triggered a humanitarian disaster, but it also led to soaring electricity prices and a continued rise in inflation. A month or two later, the first interest rate increases were made by the major central banks.

Markets were volatile and performed poorly. Both equities and fixed-income assets fell in value, due in part to higher interest rate levels. AP2's portfolio, however, demonstrated resilience, falling by a moderate 6.7 per cent in the circumstances. Our unlisted assets performed better than our listed assets, as we had expected. The significant weakening of the Swedish krona helped mitigate losses in foreign assets.

It is for conditions like those that arose in 2022 that we have developed our portfolio over time. We have placed great importance on diversifying risk as much as possible across different types of asset classes and markets, across listed and unlisted assets, and across different asset management models. We believe that over time this generates solid, stable returns in line with our long-term mission. As we now look ahead, however, we cannot rest on our laurels. We need to

take the next steps and become even better. This will involve reviewing the previous asset management strategy in light of the changing conditions we are seeing.

A more concentrated portfolio

Our portfolio is likely to be slightly more concentrated going forward, with an emphasis on those investments we consider best suited to our long-term mission. It isn't easy when you manage a portfolio as large as ours. Risk has to be spread, and we always have to consider this in order to diversify risk in a more sustainable way.

We are already in the early stages of this work, and took a number of important decisions on the portfolio during the year. We have sold our holdings of Chinese government bonds and have decided to end direct investment in Chinese A-shares. We have also taken the decision to bring most of our external asset management mandates back in-house.

Bringing more asset management in-house is a continuation of the path we set out on more than a decade ago. In-house management of our capital is made possible by the organisation and expertise that we have continually developed. Our quantitative management and efficient business support organisation enable us to manage large portfolios in a cost-effective and scalable way. This allows us to bring mandates back in-house without expanding our own organisation.



CEO'S REVIEW

Focus on biodiversity

Sustainability issues continue to be part of our DNA. During the year, we made further progress on our forest investments by defining ten criteria that must be met for us to consider them sustainable. These criteria include biodiversity, which is our most recent focus area within sustainability. We welcome the decision from COP15 (the UN's conference on biodiversity), which established a framework containing a number of targets on promoting biodiversity and restoring damaged natural environments.

There is a growing debate about 'greenwashing', when businesses or investors claim to be more sustainable than they appear to be. We view this as a sign of growing knowledge among the media and the general public about these issues and their increasing ability to scrutinise the commitments that are made. While this is good, everyone needs to fully understand what is being communicated and to not draw unfounded and/or hasty conclusions.

Our approach to sustainability work is that we prefer to try to engage, rather than immediately exiting and selling when we encounter difficulties. When deciding on the direction of our engagement work, we take our lead from the decisions and goals jointly adopted by the world's nations and endorsed by Sweden. As a state pension fund with over ten million Swedes as stakeholders, we cannot be dismissed as a special interest group, but our role carries significant responsibility to be transparent and to always be able to explain our decisions.

Collaboration to bring about change

I believe we can make a big difference, and this requires us to collaborate with other institutional investors. We invest globally and do not have the

resources on our own to conduct all the dialogues that are needed. Collaboration allows us to be part of a voice that is loud enough to bring about change. For there to be dialogue, however, we have to believe there is scope for change. If this is not the case, we should consider selling.

One example of local Swedish cooperation is our work with other members of Institutional Owner Association IÅF to pursue the issue of including sustainability criteria in the terms for companies' variable remuneration. This reflects our belief that sustainability pays. Over time, businesses that are not sustainable undermine their ability to generate returns, and, as a long-term investor, we have to take action when we encounter this. Together with the other AP Funds, we have also decided to bolster our joint Council on Ethics with more employees to ensure the Funds receive better support in their sustainability work with companies.

Sustainability makes for good business and prudent asset management

Knowledge about sustainability is clearly growing in society, and I hope that in a few years' time we won't need to talk about sustainability as something separate. Adapting business operations to new conditions makes for good business and prudent asset management. This leads on from the development that we have been part of as an investor. For example, we have divested from companies because of financial climate risk, implemented indices in line with the EU Paris-Aligned Benchmark, and made various kinds of direct investments in assets, including green and social bonds, sustainable infrastructure and Swedish cleantech businesses.

Our next step for contributing to the climate transition could be investing in businesses that

have yet to become green, i.e. companies that are focusing on transitioning their operations. This might include energy companies that are focusing their investment budget on switching from fossil fuels to renewable energy or steel companies developing new processes, like Sweden's SSAB. We believe this is a good way of ensuring that a business is prepared. However, this kind of investment focus requires extensive analysis, and we also need to ensure that we explain our approach clearly.

In 2022, the AP Funds provided information to the Swedish Parliament directly when we were invited to an open hearing. This was a welcome opportunity, and I hope it becomes part of the Swedish Parliament's annual review of the Funds.

Developing the organisation

Although our work largely returned to normal in 2022, the events of the year demonstrated that circumstances can change rapidly. I believe it is vital that we as an organisation continue to evolve so that we can face new circumstances as they arise. This means we need to take a slightly different approach to better leverage the combined expertise within our organisation.

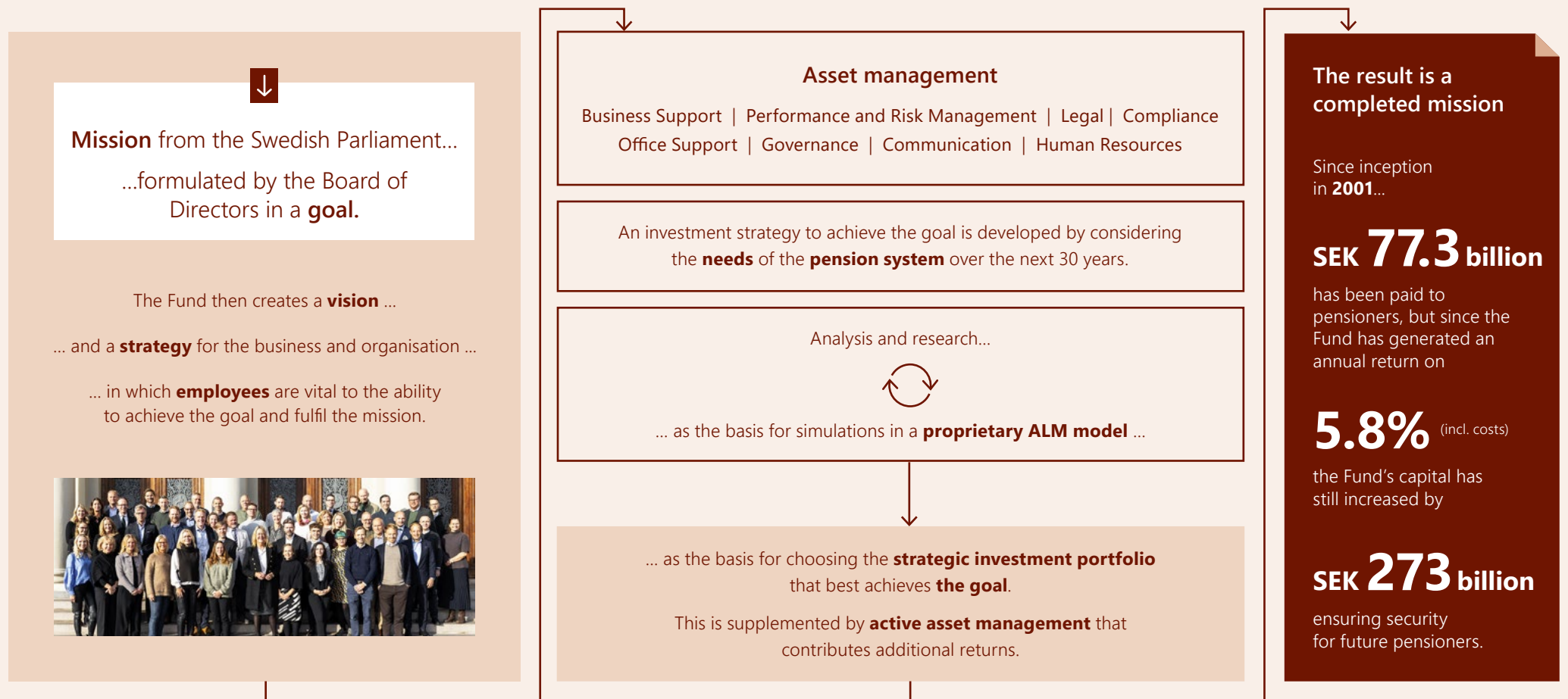
I therefore look forward to 2023. Given the changes we are seeing around us, we need to make better use of all the expertise and experience within our organisation so we can be more dynamic and achieve even better results.

Finally, I would like to thank all our employees for their dedication in what has been a tumultuous 2022. Together, we will continue to work hard to strengthen the pension system in 2023. I am convinced of that.

Eva Halvarsson,
CEO, Andra AP-fonden

Targeted value creation

Andra AP-fonden's activities and asset management are based on the Fund's mission from the Swedish Parliament. The Fund is a 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.



MACRO



War, inflation and economic downturn

The past year did not go as anyone expected. The forecasters were wrong about most things, with both weaker growth and higher inflation than was anticipated. These developments were down to a number of factors. The war in Ukraine, in particular, as well as the consequences of bottlenecks and disruptions to global trade flows that arose during the pandemic. The central banks took robust action, resulting in rising interest rates and declining stock markets. Looking ahead, a global economic downturn is expected, with rising unemployment in many countries, while inflation looks like it could fall significantly, but no sooner than late 2023.

War in Europe with far-reaching implications

In addition to its terrible humanitarian impact, Russia's war in Ukraine has also had considerable economic effects on growth in many countries, in particular, the sharp rise in food and energy prices. This hit Europe harder than many other parts of

the world because of its dependency on Russian oil and gas. The European economy benefitted, however, from the post-pandemic reopening of society in the spring and summer. This resulted in the rate of growth being surprisingly strong through to late in the year, when the economy slowed sharply. The latest indicators point to Europe entering a recession during the winter.

Soaring inflation

Both households and businesses were hit by the sharp rise in inflation in 2022. One of the causes was, without doubt, the disruptions that occurred during the pandemic to global supply chains, resulting in rising prices for those goods in greatest demand. Another was, as mentioned, the war in Ukraine and its impact on energy prices. Rising energy prices, for example, directly affected fuel prices. They also drove up food prices, because of increases in both farmers' costs and transport prices. Before the war, Russia and Belarus were among the largest suppliers of fertilizer, and this also led to higher prices. Rising gas prices then resulted in soaring electricity prices, which affected most European countries. This development also led to inflation hitting levels not seen in developed economies for 30 years or more.



Central banks forced to raise rates

Following almost a decade of low inflation, which was often just under the central banks' target of around 2 per cent, 2022 was a wake-up call for central banks. Having failed for some time to bring inflation up to the target level, they were caught off guard and have gradually had to raise their inflation forecasts as reality bites. Central banks generally aim to ensure price stability, but they realised too late that policy rates were too low, and were forced to raise them as sharply as they did. A key aim of these hikes has been to allow the economy to cool in order to reduce

economic activity, easing inflationary pressure. Another reason is that under no circumstances do the central banks want to see inflation expectations take hold. One difference from many previous rate-raising cycles is that central banks, in unison, have raised rates more and faster than usual. But there is usually a relatively long time lag before interest rate increases have an effect. There is consequently a risk that central banks have acted too quickly and that the accumulated interest rate increases will have more restrictive effects on economic activity than the central banks currently assess.

WAR, INFLATION AND ECONOMIC DOWNTURN

Strong labour markets mitigate slowdown

Labour markets were robust in developed economies in 2022. It has been many decades since unemployment was as low as it was in summer 2022. This means there is resilience to the slow-down in economic activity. But there is a time lag in the impact on labour market conditions. Rising unemployment is consequently expected relatively soon, continuing to rise for as long as the economy carries on slowing.

High debt levels impacting Swedish households

Both public and private debt have seen a general increase in developed economies over the past decade. This is amplifying the effect of rising interest rates compared with the past. The Swedish Government, however, has managed to reduce borrowing, and Sweden's debt in relation to GDP

is among the lowest in the world. The same cannot be said, however, of Swedish households, whose debt ratio¹ has increased from 150 per cent to 200 per cent over the past 15 years. According to the forecasts of the Riksbank, one percentage point increase in the policy rate now results in consumer spending decreasing by around twice as much as 15 years ago. The policy rate is therefore not expected to be raised to the same levels as before the financial crisis, but will still have a significant contractionary effect on households and Sweden's economy.

Economic downturn and falling inflation on the cards

Global growth is expected to weaken considerably in 2023 in the wake of the significant policy rate rises and high inflation. The impact of interest rate rises is likely to mean that the economic

slowdown turns into a recession in a number of developed countries. There are strong indications this will happen in Sweden and elsewhere in Europe. As a small export-dependent economy, Sweden will be affected by weaker international demand, while the country's households and businesses will struggle. Municipalities and regions will have to cope with both rising fixed costs and higher wages while tax revenues fall. Overall, the economic outlook appears fairly bleak.

Nevertheless, there are reasons to suggest the economic downturn will not be particularly deep. The labour market could potentially withstand the downturn better, as it is starting from a very strong position in developed countries. In addition, there are no major financial imbalances, which have played a key role in recent recessions. Furthermore, inflation, which was a major head-

wind in 2022, could ease and be lower than expected, particularly towards the end of the year. Inflation will still be high compared with the past decade, but there are signs that it could decrease on the back of falling raw material prices and lower transport costs. Growth in the Chinese economy, the world's second largest, has been significantly restrained by the country's zero tolerance approach to Covid-19. Now that this approach has changed, it could support growth globally.

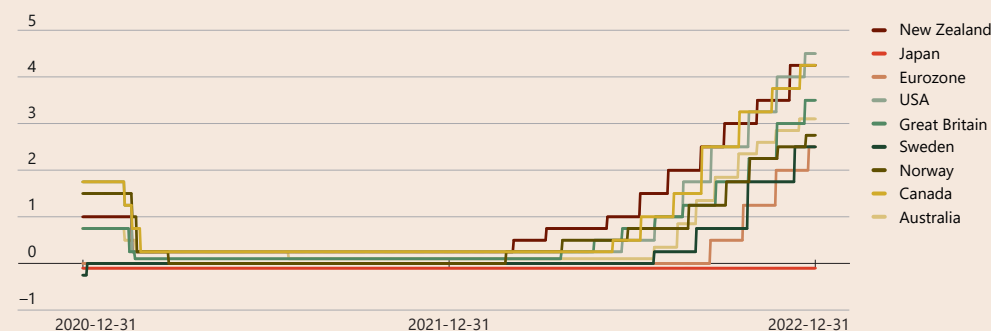
An escalation or de-escalation of the war in Ukraine will, of course, also have an effect on economic development in Europe. If a ceasefire were to be declared, there are strong indications this would lead to a more positive European growth outlook, while an escalation of the war would have the opposite effect.

¹Debt in relation to disposable income.

INFLATION (CPI, ANNUALISED), %



POLICY RATES, DEVELOPED MARKETS, %



MISSION AND ORGANISATION



The Fund's mission, goal and vision

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 set out a vision that acts as a guiding star for the organisation.

The public pension system consists of two elements: income pensions and premium-based pensions. The income pension system is a distribution system in which the role of the buffer capital is to manage the difference between pension contributions and pension disbursements. Pension disbursements currently exceed pension contributions, which means the difference is covered by the buffer capital.

If the income pension system's liabilities exceed the system's assets, there is a built-in balancing mechanism in the system that applies a 'brake' to pension development. Assets currently account for 82 per cent of 'contribution assets', with the remaining 18 per cent consisting of the buffer funds' combined value. Contribution assets reflect the future value of ongoing pension contributions and increase in value when more people are in work and wages rise.

The buffer capital, in turn, increases through the return from the AP Funds' asset management.

Mission

The buffer capital is managed by five independent entities, of which AP2 is one. The Fund's activities are ultimately regulated by the National Pension Insurance Funds Act (2000:192). 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 place less stringent demands of a high return in the AP Funds, and vice versa.

Exemplary means both that sustainability and responsible ownership must be integral aspects of the fund management and that the investments should have the risk and return that best meet the needs of the pension system. This specifically entails asset management seeking to minimise the effects of the automatic balancing mechanism, as it is only through this that the AP Funds' returns are linked to pension disbursements.



Shared values

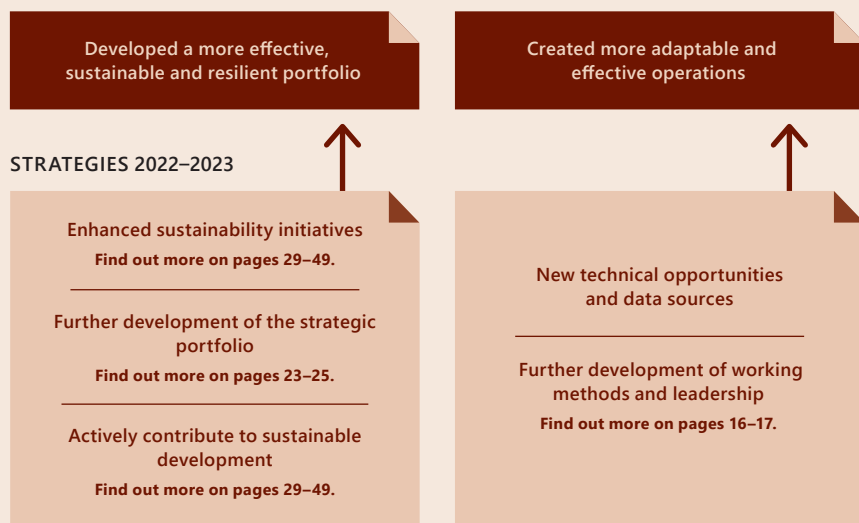
The AP Funds have shared values that provide guidance for their activities. These values are based on the Swedish Government's values and its six principles: democracy, legality, objectivity, freedom of expression, respect, as well as efficiency and service levels. All of these principles

are, to varying degrees, of significance to the AP Funds' operations. The AP Funds have specified what these general principles mean in order to clarify the relevance of these values to their operations. [Find out more at www.ap2.se](http://www.ap2.se)

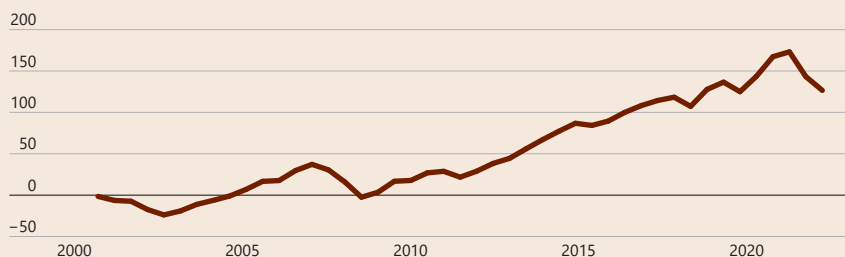
THE FUND'S MISSION, GOAL AND VISION

Long-term strategic roadmap

VISION 2023



ACCUMULATED REAL RETURN SINCE INCEPTION, %



The investment rules that the AP Funds must adhere to are also set out in legislation. Further details are available at www.ap2.se

Under this legislation, the AP Funds have to cooperate to achieve the objective of exemplary asset management and establish:

- Shared values for the management of fund assets.
- Shared guidelines on reporting how the objective has been achieved.
- Shared guidelines on which assets funds should not be invested in.

Read the documents at www.ap2.se

Objective linked to the pension system

The aim of AP2's investment activity, as set out by the Fund's Board of Directors, is to minimise the consequences of the automatic balancing mechanism over a 30-year horizon by conducting exemplary management of the capital.

To achieve this mission, the Fund has to 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. Find out more about this work in 'Experts in the pension system' on pages 20–22.

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 expected return is based on expected annual inflation of 2 per cent. The return in individual years can deviate materially from the long-term expected return.

In the past ten years, AP2 has generated a return of 104.8 per cent, corresponding to an average annual return of 7.4 per cent. Adjusted for inflation, this corresponds to a real annual return of 5.0 per cent. The real return in 2022 was –16.9 per cent.

Vision

AP2's vision of world-class asset 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. The current roadmap focuses on developing a more effective, sustainable and resilient portfolio and on creating more adaptable and effective operations.



Good leadership is the key to a strong culture

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 the internal culture and good leadership.

AP2 is very much a knowledge-driven organisation, with the important mission of managing part of the buffer capital in the public pension system. This makes high demands of the employees' expertise and 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 at its best, the Fund must motivate all employees to achieve good results.

Importance of culture building

To lay the right foundation, the Fund places great emphasis on 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. This model places great importance on managers being role models and acting according to a clear set of values, which in the Fund's case are

based 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. Being a manager and leader is a continuous learning process. All managers continued their development of leadership communication during the year. To promote its organisational culture, AP2 has decided to introduce flexible working, which allows employees to work away from the office for two days a week.

Transparency

Since the Fund considers transparency to be vitally important, great emphasis is given to keeping all employees continually informed, including at weekly meetings of the entire Fund's employees. This clear transparency provides a guide for managers and employees, so that through their decisions they can take responsibility for the Fund's performance. Personal commitment and a sense of responsibility for the Fund's mission are encouraged through employee participation 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. Internal recruitment is

GOOD LEADERSHIP IS THE KEY TO A STRONG CULTURE

a primary focus, supported and encouraged by sharing knowledge within the organisation. 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 placements, 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 importance is also given to finding suitable candidates who can develop the Fund's culture and are good at working with others. This is ensured by a recruitment process in which candidates have several opportunities to meet various people, besides the recruiting manager and HR manager.

Diversity and inclusion

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, scope to work independently, and paid parental leave, in order to achieve a good work-life balance. Three of the Fund's employees took parental leave during 2022.

As an element of its diversity work, the Fund supports the 'Mitt Liv' organisation, which is dedicated to increasing diversity and integration in the Swedish labour market. Each year, under the organisation's mentoring programme, five Fund employees have the opportunity to mentor graduates who have moved to Sweden and are seeking employment to match their skills. During the year, AP2 held a lecture on diversity and inclusion for all employees.

Health protection

The Fund conducts systematic occupational health and safety measures in order to minimise the risk of ill health. This has been particularly important during the pandemic, which required employees to work from home at the start of the year. During this period, the Fund's managers were in close contact with their employees, to avoid adverse mental-health and physical-health effects. Following a test period and evaluation of flexible working, the option to work for two days a week away from the office was introduced in mid-August.

Each employee's health is also monitored in conjunction with the annual employee appraisals. AP2 encourages a healthy and sustainable lifestyle and is proactive in supporting employee well-being. Exercise and good health are a crucial aspect of the Fund's corporate culture, and all employees are offered a fitness allowance and regular medical check-ups.

The Fund promotes issues as gender equality, diversity, health and safety, and anti-discrimination. The work is based on the Fund's equality and

diversity plan, health and safety policy and anti-discrimination policy. All employees are informed of the Fund's policies and guidelines when they join.

Whistleblower function

It is important that all reports of serious inappropriate behaviour are handled correctly, objectively and with integrity, regardless of whether a report is made using the whistleblower tool or directly to a particular person.

AP2 has a whistleblower policy, determined by the Board of Directors. The purpose of the policy is to clarify to employees how they can and should report suspicions of irregularities and other serious inappropriate behaviour without the risk of subsequent reprisals, discrimination or other consequences. The policy clarifies certain procedures, and the Fund has opted to use an external whistleblower tool that allows employees and consultants to anonymously report inappropriate behaviour within the organisation. The policy contains information about when the inappropriate behaviour should be reported, how the

reports should be dealt with by the Fund, and general information about the Fund's whistleblower function.

The Fund's employees are informed about the policy when they join and regularly throughout their employment. Information about the whistleblower policy is also available on the intranet.

Remuneration

The Fund seeks to remunerate its employees at a level that provides motivation and is competitive within the industry. AP2's Board of Directors determines the guidelines on remuneration to senior executives and follows the Government's guidelines on terms of employment at the AP Funds. The Fund has taken the decision to no longer offer variable remuneration from 2022. Find out more about remuneration on page 89.

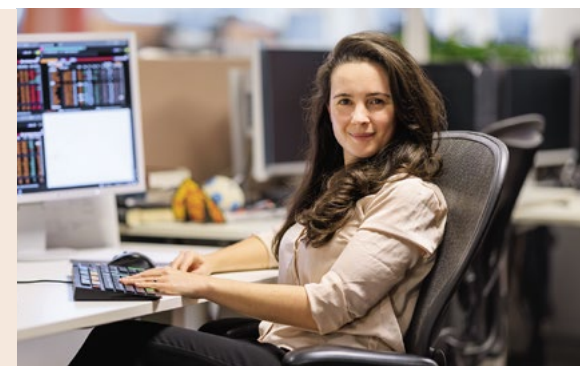
All employees are covered by the collective agreement between the Swedish Employers' Association of Banking Institutions (BAO) and Akavia/Swedish Association of Graduate Engineers (SACO).

 **Continuing professional development**

Continuing professional development (CPD) is a key part of the Fund's personnel work, and employees are offered continual development within their professional field. In addition to this, there is a significant transfer of skills, including by means of the Fund's departments regularly inviting colleagues from other departments to listen in and contribute to ongoing projects. The Fund's working environment is

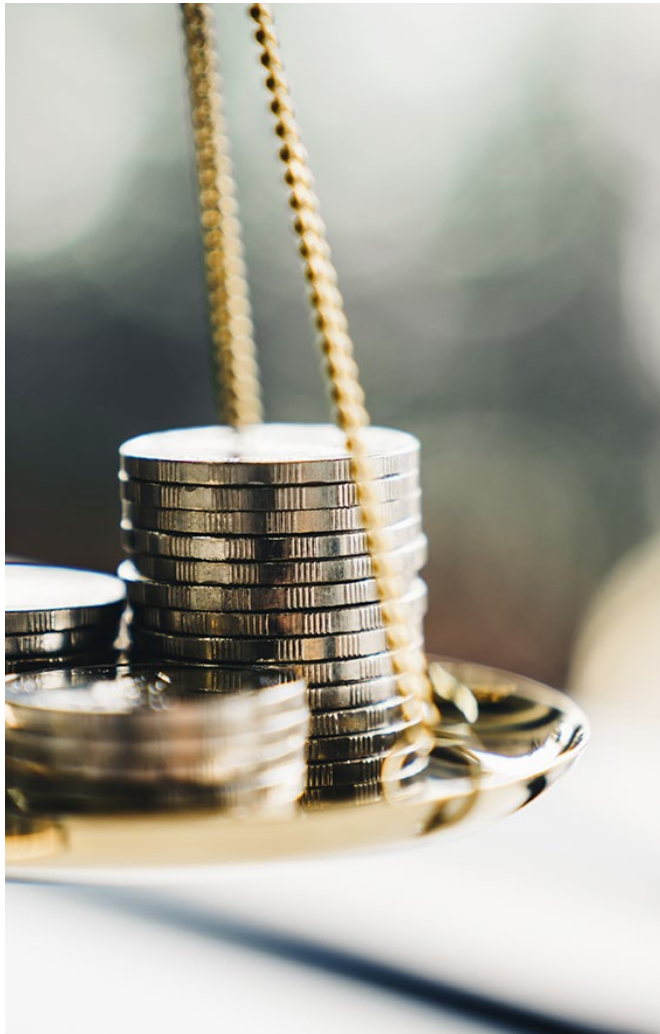
characterised by a team spirit and great respect for each other's expertise.

As one of northern Europe's largest asset managers, AP2 also shares expertise externally with investor colleagues, both in Sweden and abroad. The Fund also follows current academic research, conducts its own research and participates in conferences where relevant results are presented and discussed.



INVESTMENTS





Sights set on constant improvement

Erik Kleväng Callert has been Chief Investment Officer at Andra AP-fonden since May 2022. He is looking forward to using his extensive experience of managing pension capital to contribute towards the continued development of the Fund.

“I started at Alecta in 1995, so I’ve been managing capital for 27 years. I’ve mostly worked with occupational pensions, but I have also dealt with private pension savings and ordinary savings,” says Erik.

The various parts of the Swedish pension system are usually illustrated as a pyramid. Private savings are at the top of the pyramid, with occupational pensions in the middle. The income pension system, of which the AP Funds are a part, forms the base.

“The base of the pyramid must be stable and managed responsibly. The gravity of this mission and the focus on sustainability, where the AP Funds act as an example for the rest of the pension industry, were what appealed to me,” explains Erik.

Awareness of the importance of integrating sustainability at all stages of asset management has grown throughout the finance world over the 20 years or so that the Fund has existed. In the long term, financial value creation that is not sustainable impairs the organisation’s own operating environment. As an investor, it’s about being aware of the risks.

“Climate change is undermining the entire foundation of our economic prosperity. The same applies to biodiversity, which this year we have added as a focus area in our sustainability work. But it’s not just about protecting financial values; it’s also bringing about change for the better,” says Erik.

Erik believes that the Fund’s role as an owner is key in this respect. Divestments within the various portfolios managed by the Fund can reduce carbon footprint, but can only indirectly, and in the long term via higher financing costs, lead to any notable improvement.

“If we operate in collaboration with others in our role as owner, we can accomplish greater, and more specific, changes. We can also exert our influence via direct investment in the climate transition, for example in sustainable infrastructure, green bonds or one of the private equity funds that specialise in future solutions,” says Erik.

Erik has no plans to make any significant changes to the work of the Fund as part of his new role.

“What strikes me most, having been here a few months, is the strength of the culture. There are 70 extremely capable and dedicated employees, all of whom are working towards a shared goal and aiming to continually improve. My job as a manager is to maintain and reinforce that,” says Erik.

Events in recent years have confirmed the fact that the world is in a state of flux. Climate change, extreme weather, the pandemic, war and geopolitical tension, as well as a turbulent economic trend are just some of the challenges we have faced.

“In the long run, change is the only constant. As a manager of capital, we simply have to adapt. My role is to lay the foundation for our employees to invest fund assets in a sound way, and ensure that we can be responsive and move quickly when the opportunity arises. We should avoid unnecessary complications,” says Erik.

Furthermore, Erik wants to help boost external confidence in the Fund’s activities.

“We are a government agency, and as such we are held to account by just over ten million people in Sweden. We must be transparent, clear and up front in our communication, and act in an exemplary manner at all times,” says Erik.

The Fund has just one mission: to be of the greatest possible benefit to the pension system, and it therefore has a long-term perspective for its investments. The planning horizon in the ALM model, which forms the basis of the choice of strategic portfolio, is 30 years.

“An enduring approach to our mission means we can work in the long term, both with our investments and with the development of our organisation. It’s going to be great fun to be able to contribute to this using the experience I’ve gained over the years. If we keep working together towards the same goal, and never stop seeking to improve, we will continue to be of the greatest possible benefit to Sweden’s pensioners, and remain a model for the industry,” says Erik.

” The base of the pyramid must be stable and managed responsibly.





Experts in the pension system

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.

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 time 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.

However, since a high 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 21 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 trend in the income pension system over the next 30-year forecast period. Based on the simulations, it is then possible to identify the long-term portfolio composition that is expected to entail the lowest future pension losses due to the brake being activated.

Besides the demographic trend, which carries significant weight, macroeconomic variables such as employment rates, economic growth and income trends 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 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.

EXPERTS IN THE PENSION SYSTEM

The Fund annually reviews the assumptions on which the ALM analysis is based. The assessment is based on 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, which means that the contributions paid into the pension system by the gainfully employed fund disbursements to current pensioners.

If contributions exceed 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. However, since 2009 the opposite has applied, since the large cohorts born in the 1940s began to take retirement. In total, up to and including 2022, AP2 has had a net outflow of around SEK 56 billion to the pension system, and the net outflow from the buffer funds is expected to continue for many years to come.

For the pension system, the Fund's simulations apply a pessimistic scenario to demographic trends. 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 pensioners. This scenario justifies a long-term portfolio with relatively high expected returns and risks.

The pessimistic scenario is chosen because, in the first instance, 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 significant role. If a more optimistic scenario materialises, the negative consequences of choosing a portfolio adapted to the pessimistic scenario are assessed to be small. Meanwhile, the negative consequences related to the opposite choice can be considerable.

Brighter future

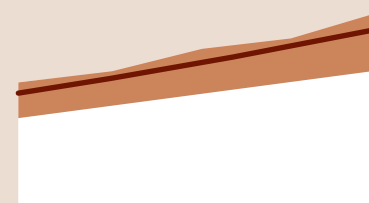
Since the first version of the Fund's ALM model was launched in 2004, the pension system's future scenario has changed significantly. Just a few years ago, the Fund's simulations showed that the brake could be expected to be applied regularly during the next 30 years. The latest simulations now show a much-improved financial position up to 2050.

Today, the asset value is around 12 per cent higher than the pension liability. 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.

Two demographic factors also contributed: the population increase as a consequence of recent

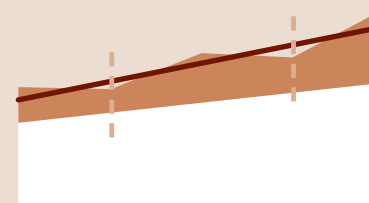
The ALM model

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



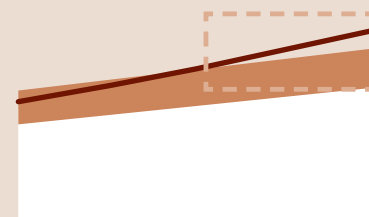
IDEAL SCENARIO

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 that 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 on several occasions. 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 its liabilities. The brake is thus activated towards the end of the period.

— Pension liability ■ Buffer capital □ Contribution assets - - - Balancing



Climate change 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 therefore takes these risks into account in the ALM analysis, and the assessment is that the return will be adversely affected if the countries of the world fail to achieve the goal under the Paris Agreement of limiting the global temperature increase to well below two degrees Celsius.

EXPERTS IN THE PENSION SYSTEM

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 age to start drawing a pension of 64.9 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 led to a more positive outlook. The Fund will continue to analyse the implications of the changed future scenario, in particular a higher pension age, for the choice of long-term portfolio. A stronger position for the pension system means 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, demographic trends 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 time horizon. Find out more in the Investment Strategy section on pages 23–27.

An accelerator in the system

On 15 June, 2022, the Swedish Parliament issued an invitation to the Government to come up with a proposal to introduce an 'accelerator' into the pension system. When the pension system's financial position is sufficiently strong, an accelerator would allow pension growth to outpace the income index. The introduction of an accelerator will affect the AP Funds' role in the pension system. For the AP Funds, it would mean that pension disbursements are not only affected by the Funds helping to avoid use of the brake, but also by them contributing towards activating the accelerator. This may entail other requirements regarding how the buffer capital should be managed, for example the most appropriate long-term expected return and risk level.

It is not yet known how a potential accelerator might be implemented. However, AP2 has begun analysing how the various potential alternatives may impact both the pension system and the choice of strategic portfolio. The same applies to the effects of any increase in fees to the pension system.

A sustainable investment strategy

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 20–22.

An effective portfolio is a portfolio that maximises the expected return for each given level of risk. The return on equivalent types of assets is not perfectly correlated. For example, in extreme cases this can mean 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 asset 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 on the right.

Systematic and active risk-taking

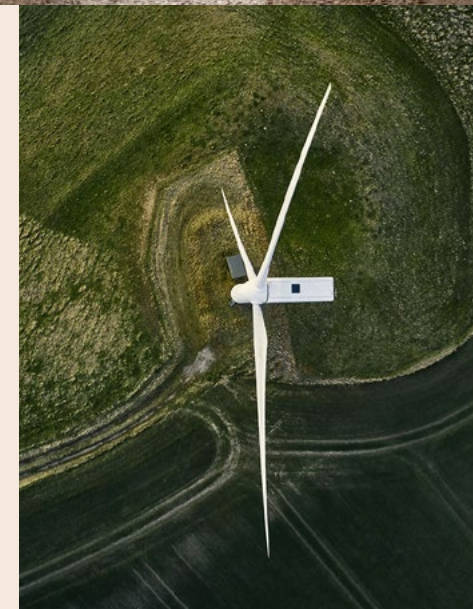
The Fund achieves the expected return required to meet the needs of the pension system by, in the first instance, exposing the Fund capital to various market risks, also called systematic risk premiums. To begin with, this is achieved through allocations to broad asset classes such as equities, government bonds and corporate bonds, and to illiquid asset classes such as private equity, real estate and sustainable infrastructure.

The next step involves choosing which index represents the respective listed asset class, and which strategies will form the basis of allocations to illiquid asset classes. 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 means, among other things, that equities in small companies and



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.
6. Climate change is a systemic risk.
7. 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

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. For example, the carbon footprint is reduced via the indices for equities and corporate bonds, which satisfies the EU's framework for the Paris-Aligned Benchmark; see page 37.

The strategic portfolio selected by AP2 is expected to give an average annual real return of 4.0 per cent over the coming 30-year period.

Besides the return from long-term systematic risk-taking, additional added value is generated

by active management, which means investment decisions within each asset class that lead to the final portfolio deviating from the selected index. Through active management, the Fund's objective is to add 0.5 percentage points to the annual return over time.

Long-term approach and 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 focuses heavily 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.

Importance of cost effectiveness

To ensure the highest possible return after costs, in relation to the risk taken, the Fund also maintains a strong focus on cost-effective management. Several asset classes, totalling 79 per cent of the capital, are therefore managed in-house. Resources are concentrated on areas that the

Fund considers to have the greatest chance of success, based on the market, experience, expertise and processes.

The Fund also uses external managers, primarily for illiquid asset classes.

Integration of sustainability

Two of the Fund's investment beliefs concern sustainability, and more specifically that sustainability pays off and that climate change constitutes a systemic risk. Since sustainability is important for the Fund's return, it is also key to the strategy and for investment decisions at all levels.

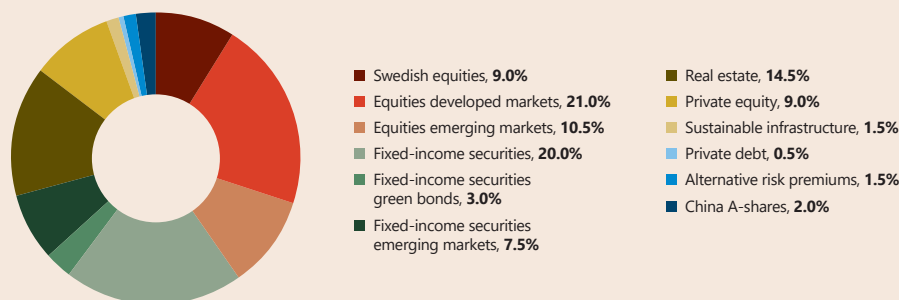
BENCHMARK INDEX FOR THE LISTED STRATEGIC PORTFOLIO, 31 DECEMBER 2022

Asset class	Index	
Equities	Sweden	SEW PAB, SSX PAB
	Developed markets	MSCI World ¹ , Developed Markets Multifactor PAB
	Emerging markets	Emerging Markets Multifactor PAB
Fixed-income securities	Swedish nominal	SHB Swedish All Bond ¹
	Foreign government bonds	Bloomberg Barclays Global Government Index ¹
	Foreign 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}

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.

ANDRA AP-FONDEN'S STRATEGIC PORTFOLIO 2022, % OF THE FUND'S CAPITAL



A SUSTAINABLE INVESTMENT STRATEGY

One principle is that sustainability must be an integral part of 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.

The Fund has long had a strategic allocation to green bonds. This currently amounts to 3.0 per cent, equivalent to approximately SEK 10 billion. Another example is the Fund's strategic target allocation of 5.0 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 establish a new required level.

Sustainability is also integrated into the strategic portfolio via the indices representing respective asset classes. In recent years, AP2 has focused heavily on developing and implementing multi-factor indices for global equities and corporate bonds that are in accordance with the criteria for the EU Paris-Aligned Benchmark. Find out more on page 37. The Fund's management of bonds in emerging countries is also based on indices with sustainability characteristics.

For alternative unlisted asset classes, indices are not the starting point for the portfolio composition. Instead, strategies are designed that are intended to achieve designated targets for the allocations, including the requirement of sustain-

able investments and the sustainability of the external asset managers that are engaged.

Within active management, sustainability is also an integral 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 operators 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 should 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 simpler basic portfolio created with the same ALM analysis. With considerably fewer asset classes to choose between, the basic portfolio now comprises 75 per cent global equities and 25 per cent Swedish bonds.

In 2022, the assessment, performed in October each year, showed that since 2008 the strategic portfolio has achieved a higher return than the basic portfolio, while the risk has been lower.



In-house portfolio management

The following asset classes are managed in-house:

- Swedish equities
- Developed markets, equities
- Emerging markets, equities
- Emerging markets, fixed-income securities
- Swedish fixed-income securities
- 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.



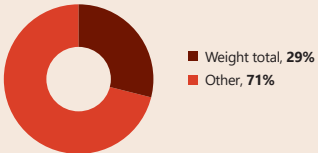
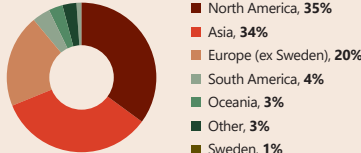
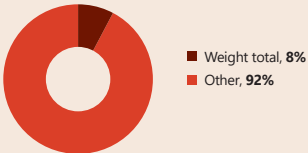
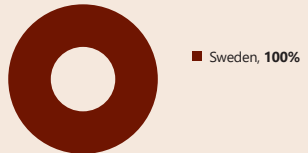
External portfolio management

In 2022, 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).

Assets


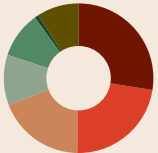

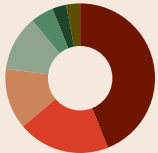
Andra AP-fonden puts together the portfolio of assets in different countries that best fulfils the Fund's mission of being of the greatest possible benefit to the pension system. Considerations related to sustainability are a natural aspect of the choice of portfolio.

	Foreign equities	Swedish equities
Area of responsibility	Active management of foreign equities.	Active management of Swedish equities.
Share of portfolio/countries	<p>SHARE OF PORTFOLIO</p>  <p>■ Weight total, 29% ■ Other, 71%</p> <p>ALLOCATION BY REGION</p>  <p>■ North America, 35% ■ Asia, 34% ■ Europe (ex Sweden), 20% ■ South America, 4% ■ Oceania, 3% ■ Other, 3% ■ Sweden, 1%</p>	<p>SHARE OF PORTFOLIO</p>  <p>■ Weight total, 8% ■ Other, 92%</p> <p>ALLOCATION BY REGION</p>  <p>■ Sweden, 100%</p>
Asset management strategy	<ul style="list-style-type: none"> • In-house, quantitative management of foreign equities by using statistical analysis to identify characteristics, so called factors, in companies that either individually or together with others can indicate future returns. • External management of global equity mandates. • The Fund uses sustainability factors in its management, which generates healthy returns for pensioners and promotes sustainable development. 	<p>The Fund's management of Swedish equities is based on three mandates: one for large companies that has an investment universe of around 60 companies; one for small companies that has around 270 companies, and a mandate that invests in cleantech companies. The asset management team bases its selection of companies on a separate fundamental analysis. This involves careful analysis of a company's accounts, business model, markets and future outlook.</p> <p>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.</p>
Return	The foreign equity portfolio for developed markets generated a return of -5.3 per cent. The foreign equity portfolio for emerging markets had a return of -2.8 per cent. The foreign equity portfolio outperformed the benchmark index by 0.06 per cent.	The Swedish equity portfolio generated a return of -20.6 per cent. The Swedish equity portfolio outperformed the benchmark index by 2.9 per cent.
Integration of sustainability	<ul style="list-style-type: none"> • Multi-factor indices, developed in-house, with sustainability characteristics for the foreign share-holdings. The sustainability factors to which the indices have had the greatest exposure are those linked to a number of environmental, social and corporate governance factors. This means that equities in companies that have a good ESG profile have received a higher index weight. • Multi-factor indices, developed in-house, for foreign equities that are in line with the EU Paris-Aligned Benchmark (PAB). • Evaluates and imposes requirements on external managers' sustainability work. • Does not invest in companies on the Fund's exclusion list. • Voting at general meetings. 	<ul style="list-style-type: none"> • When analysing companies, sustainability factors are considered and how they may affect both the companies' valuation and revenue in the long term. • Implemented a PAB index for the Swedish equity portfolio. • Portfolio of cleantech companies. • Does not invest in companies on the Fund's exclusion list. • Works in nomination committees. • Voting at general meetings.
Highlights 2022	<ul style="list-style-type: none"> • Further developed and strengthened the PAB indices. 	<ul style="list-style-type: none"> • 2022 has been a challenging year on several fronts, with rapid rises in both inflation and interest rates. A number of sectors that benefitted from low interest rates in recent years have seen a sharp fall. • Despite global turmoil, the strategy has been maintained and the Fund has continued to invest in 'good' companies. These are companies the Fund wants to own over a long period of time; companies with growth, good capital allocation and strong cash flows. • Adapted benchmark index for the PAB framework.

ASSETS

Fixed-income securities

Alternative investments

Area of responsibility	Active management of fixed-income assets.		Investments in unlisted real estate (including timberland and farmland real estate), private equity funds, sustainable infrastructure, Chinese A-shares, alternative risk premiums and private debt.	
Share of portfolio/countries	<p>SHARE OF PORTFOLIO</p>  <p>■ Weight total, 27% ■ Other, 73%</p>	<p>ALLOCATION BY REGION</p>  <p>■ North America, 28% ■ Europe (ex Sweden), 22% ■ Sweden, 19% ■ South America, 11% ■ Asia, 10% ■ Oceania, 1% ■ Other, 9%</p>	<p>SHARE OF PORTFOLIO</p>  <p>■ Weight total, 36% ■ Other, 64%</p>	<p>ALLOCATION BY REGION</p>  <p>■ North America, 44% ■ Sweden, 20% ■ Asia, 13% ■ Europe (ex Sweden), 12% ■ Other, 5% ■ Oceania, 3% ■ South America, 3%</p>
Asset management strategy	In-house management of Swedish and foreign fixed-income securities, including the Fund's investments in green, social and blue (linked to water) bonds.		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. Ongoing management takes place via investments in co-owned companies and in funds, or via external managers. Evaluation of results, processes, etc. is done both prior to an investment and continually over the lifespan of an investment.	
Return	Swedish fixed-income securities generated a return of -7.4 per cent, and emerging market fixed-income securities 4.5 per cent. Foreign government bonds generated a return of -6.2 per cent. Foreign credits generated a return of -3.5 per cent, and green bonds -10.5 per cent.		During the year, alternative investments generated a return of 11.8 per cent (5.1 per cent with currency hedging earnings included).	
Integration of sustainability	<ul style="list-style-type: none"> • Sustainability is an important theme in fixed-income management, and besides the investments in green bonds, the Fund is an active investor in bonds with other sustainability characteristics, such as social and blue bonds. • Does not invest in companies on the Fund's exclusion list. 		<ul style="list-style-type: none"> • Sustainability is integrated into all areas within alternative investments. • Evaluates and imposes requirements for managers, funds and joint investment companies. • Continual follow-up of sustainability throughout the investment's lifespan. 	
Highlights 2022	<ul style="list-style-type: none"> • Successfully adapted portfolio and asset management strategy to a new operating environment with rising interest rates and greater interest rate differentials. • Continued to develop strategy, follow-up and reporting of investments in bonds with a sustainability focus. • Further developed and refined execution to cost-effectively implement the strategic portfolio adopted by the Board in an environment with unsettled market conditions. • Increased focus on managing and planning changes to the Fund's liquidity and collateral as a result of significant fluctuations in the value of the Fund's currency hedging. 		<ul style="list-style-type: none"> • The unlisted asset classes continue to generate an attractive return. • Developed criteria for defining timberland and farmland investments as sustainability investments. • Continually evaluating increasing opportunities within private equity to invest in climate and SDG-related strategies. • New investments in private debt. • A number of investments have been carried out within sustainable infrastructure, including a fund investment with a strategy focused on advanced bioenergy. 	

SUSTAINABILITY



Sustainability work 2022

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.

Including sustainability aspects in analyses and investment processes gives the Fund broader and better data for its decision-making. The Fund is also committed to maintaining a high level of trust by seeking to take the lead on sustainability issues,

while also contributing to the development of sound practice in asset management.

AP2 has continued to build on its sustainability work during the year. This has occurred in all, now five, priority focus areas.

One key focus has been a review and revision of the Fund's sustainability policy. The Fund has also developed a method for its sustainability work through responsible investment and responsible ownership. The method comprises six parts: integration, materiality, analysis, engagement, collaboration and transparency. Find out more on page 34.

About the Sustainability Report

Andra AP-fonden presents a separate detailed Sustainability Report that is published on the Fund's website. The sustainability information in the Annual Report is a summary only. The Fund also aims to adhere to the content of Chapter 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. The Fund also presents a summary here of its work on biodiversity, corporate governance as well as diversity, equity and inclusion.



Significant events during the year

- The Fund has continued to invest in sustainable infrastructure in 2022.
- Over the past year, AP2 has developed processes to help the Fund understand and measure the impact of its investments on people and the environment. Find out more about this work on pages 45–46.
- AP2 has drawn up ten criteria that the Fund's forest investments must satisfy to be classified as a targeted sustainability investment.
- AP2 has been working with the members of IÄF (Institutional Owner Association) to urge Swedish boards of directors to incorporate relevant sustainability criteria into their variable remuneration programmes.
- AP2 has been appointed a member of the EU's High-Level Expert Group (HLEG) on scaling up sustainable finance in low and middle-income countries.
- The Fund has added biodiversity as a priority focus area for its sustainability work.
- The Fund won two awards at the SFDR Asset Owner Awards for its carbon dioxide reduction in the portfolio.



Sustainability an integral part of AP2's mission

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

AP2's sustainability work is based on the Fund's mission and vision.

The AP Funds' mission 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 AP 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 investment and responsible ownership. The Fund gives high priority to both sustainability and responsible conduct. Sustainability covers the environment, ethics, social issues and corporate governance, and a proactive approach to these areas is the means to attain the goal of a healthy, risk-adjusted return.

AP2's vision is world-class management. To achieve this vision, sustainability must be an integral part of all analysis and investment processes. Actively working with, and integrating sustainability into the Fund's activi-

ties, enables us to create and protect value, as well as promote sustainable development.

AP2 is responsible for both the management and ownership of the capital that the Fund has received, and works actively with sustainability from both of these perspectives – responsible investment and responsible ownership. Systematic and exemplary sustainability work is also a key factor in being able to recruit and retain employees.

The Fund's definition of sustainability

AP2's sustainability work is based on the Fund's mission and involves a long-term approach to protect and build value – from an economic, environmental and social perspective.

This is consistent with the Brundtland Commission's definition from 1987: "Sustainable development is meeting the needs of the present without compromising the ability of future generations to meet their own needs."

Sustainability work is pursued based on the principle of 'double materiality'. This means that continual monitoring is undertaken in terms of how the Fund, and the value of investments, is affected by sustainability-related risks and opportunities, and how the Fund impacts people and the environment through its holdings.

SUSTAINABILITY REPORT

AP2's focus areas

AP2 has identified five focus areas for its sustainability work. The choice of areas is underpinned by an assessment of materiality based on the following parameters:

- Potential impact on expected return and risk in the Fund's portfolio.
- Relevance in the Fund's investment universe and potential for integration into the investments.
- The positive or negative impact AP2 has through its investments, for example via the portfolio companies' impact on people and the environment.
- How important the area is to the Fund's stakeholders.

By choosing focus areas, the Fund ensures long-term engagement, which is deemed essential in order to achieve results. A strategy is defined within each area based on the six parts of the method: integration, materiality, analysis, engagement, collaboration and transparency (see page 34), with an explicit long-term goal and/or commitment.

During the year, the Fund decided to add biodiversity as a focus area, because it is an urgent issue that can have significant consequences and is therefore highly relevant to AP2's portfolio.

The Fund has also decided to expand its diversity focus area to cover equity and inclusion as well.

The Fund's sustainability focus areas are:

- Climate
- Biodiversity
- Human rights
- Diversity, equity and inclusion
- Corporate governance.

A detailed report on each focus area is available in the Fund's separate Sustainability Report, www.ap2.se

Sustainability risks

The most significant risks in the Fund's activities can be grouped into financial, operational and impact risks. Overall, sustainability risks may affect all these risks. Impact risks com-

prise the risk that an investment might harm people or the environment. Examples of such risks associated with people are human rights violations, corruption and bribery. Examples of impact risks associated with the environment include illegal deforestation, greenhouse gas emissions and dumping of hazardous waste. The purpose of identifying impact risks is to manage such risks, i.e. ensuring the Fund has processes to avoid the risks it does not want in the portfolio, and to use engagement to reduce the risks identified in the portfolio. Find out more about impact risks on page 46.



Long-term goals

AP2 has defined long-term objectives to establish a direction for the Fund's efforts within each focus area. Goals are broken down into long and short term, and activities for achieving the goals are detailed in a strategy and in annual action plans for each focus area.

Climate

- Net zero greenhouse gas emissions by 2045.
- Greenhouse gas emissions –55 per cent by 2030 (base year 2019).
- All asset classes in line with the Paris Agreement by 2025.

Biodiversity

- AP2 contributes to a net positive impact on nature by 2030.
- A portfolio that does not contribute to illegal deforestation by 2025.

Human rights

- Implementation of UN Guiding Principles on Business and Human Rights by 2025.

Diversity, equity and inclusion

- The Fund's listed holdings should have on average at least 40 per cent of each gender on the board by 2030.
- The Fund will have actively influenced portfolio companies to have a strategy for diversity, equity and inclusion.

Corporate governance

- Active and responsible ownership via increased number of dialogues, and voting in all of the Fund's listed shareholdings by 2027.



Governance

Guiding documents for sustainability work

AP2 has a number of policies and guidelines that form the basis of its sustainability work, with the primary document being the Fund's sustainability policy (see description on page 33). 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 of AP2's sustainability work include the OECD Guidelines for Multinational Enterprises and Corporate Governance, the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the Swedish Companies Act and the Swedish Code of Corporate Governance. The Fund also adheres to other specific corporate governance codes such as the ICGN Global Stewardship Principles and the UK Stewardship Code.

AP2 endorses and is implementing 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 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 clarify 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 participants with regard to the integration of sustainability risks, and 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. However, since part of the AP Funds' mandate is to manage the fund assets in an exemplary manner through responsible investment and responsible ownership, and to report on how the goal has been achieved, the AP Funds will develop their reporting over the next few years, primarily on the respective websites, in line with the Regulation. Find out more about the Fund's reporting in line with SFDR on AP2's website.

SUSTAINABILITY REPORT

Principal Adverse Impacts

Principal Adverse Impacts (PAI) are part of SFDR and are defined as: "negative effects, material or likely to be material on sustainability factors that are caused, aggravated by or directly linked to investment decisions and advice performed by the legal entity".

The SFDR framework contains 14 mandatory indicators for greenhouse gas emissions, biodiversity, water, waste and social indicators that must be considered according to the 'comply or explain' principle.

There are also voluntary indicators: 22 climate indicators and other environment-related indicators, as well as 24 indicators relating to social conditions and employees, respect for human rights, anti-corruption and matters relating to bribery.

AP2 reports according to some of these indicators, and plans to enhance this reporting over the course of the coming years. Find out more in the Fund's separate Sustainability Report.

Organisation and division of responsibility

AP2's Board establishes guidelines and policies on 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.

Ongoing corporate governance work is conducted by the Fund's Corporate Governance Group, which consists of members of 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.

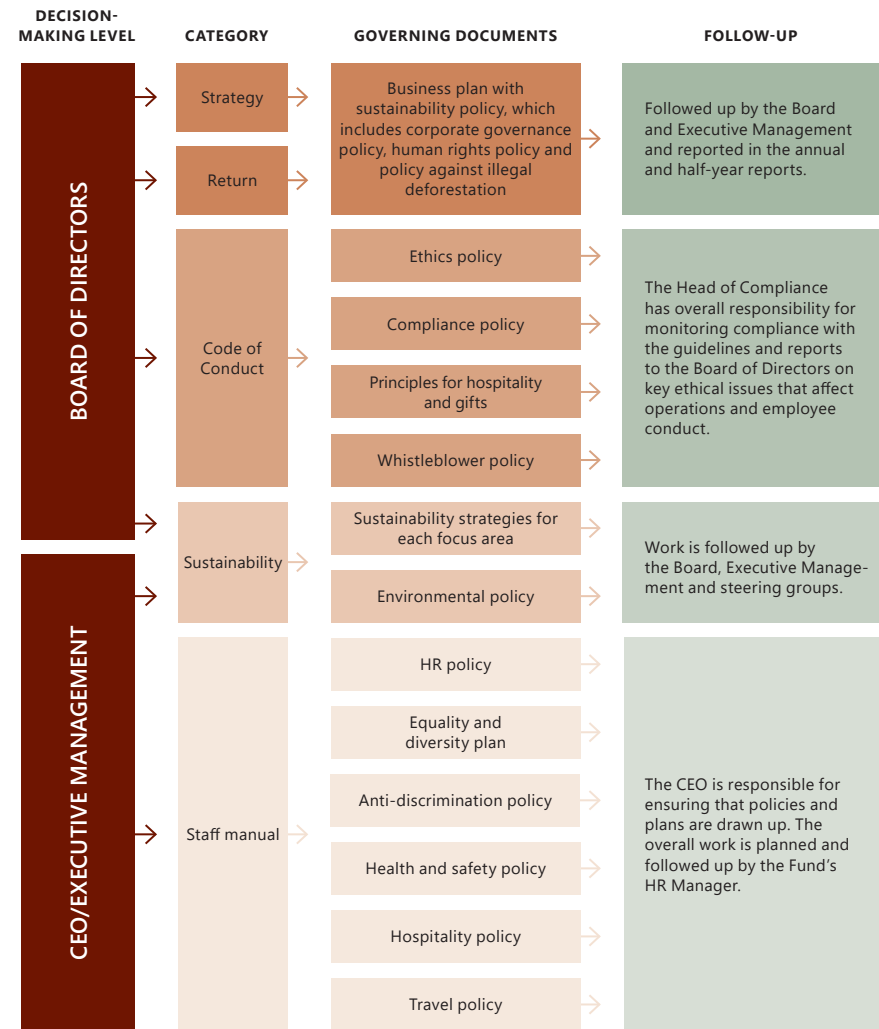
At each Board meeting, AP2's Board receives a report on the Fund's sustainability and corporate governance work.

Stakeholder dialogue and materiality analysis

Continuous dialogue with stakeholders provides important guidance for the Funds' sustainability work. To investigate how our stakeholders view the AP Funds' mission and activities in relation to sustainability and returns, AP1, AP2, AP3 and AP4 have jointly conducted stakeholder dialogues and materiality analyses on several occasions.

In 2023, the AP Funds will develop a process for conducting materiality analyses and stakeholder dialogues in accordance with relevant frameworks.

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



SUSTAINABILITY REPORT

Sustainability policy

AP2's sustainability policy is based on the Swedish government's core values and position, as well as the AP Funds' shared values. The sustainability policy provides the overriding framework for the Fund's sustainability work. It is implemented via the Fund's sustainability strategy and action plans for each focus area.

AP2's sustainability work follows a method that comprises six parts. These form the basis of the strategies that outline the work pursued by the Fund within each focus area. The method explains *how* this work is conducted via responsible investment and responsible ownership.

1. Integration – Sustainability is integrated throughout the organisation, in asset management and in the Fund's day-to-day operations.
2. Materiality – AP2 focuses its work on the most important issues and areas where the Fund can make the biggest difference.
3. Analysis – Sustainability work is built on thorough, fact-based analysis, both prior to an investment and in the Fund's role as owner.

4. Engagement – AP2 encourages companies to live up to the Fund's expectations in relation to sustainability issues.
5. Collaboration – The Fund can achieve more via collaboration, both within AP2 and with other investors.
6. Transparency – AP2 practices what it preaches and establishes trust through transparency.

The Fund's sustainability policy is part of its business plan, which is adopted annually by the Board of Directors.

The Fund offers regular in-house training on sustainability and on the focus areas. This is done to ensure that all employees are familiar with the policy and have the requisite knowledge to enable them to adhere to it in their day-to-day work. The policy is available to read on the Fund's website.

Collaboration

The Council on Ethics of the AP Funds

Dialogue is an important tool in exerting influence and achieving positive change. Dialogue with foreign companies is usually coordinated through the AP Funds' joint

Council on Ethics, which conducts dialogues with companies all over the world. The Council on Ethics is a collaboration between AP1, AP2, AP3 and AP4, and was launched in 2007.

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 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.

In addition, the Council on Ethics also manages proactive projects on prioritised sustainability issues.

Find out more about the work of the Council on Ethics in the Fund's separate 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. The Fund is also a member and/or supporter of, various Swedish and international initiatives relating to the environment, ethics, social issues and corporate governance. AP2 also 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.

AP2 contributes in EU's High-Level Expert Group

During the year, AP2 became a member of the EU's High-Level Expert Group (HLEG) on scaling up sustainable finance in low and middle-income countries.

The remit of the group over the next nine months is to establish how the EU Commission, via a Team Europe strategy, can encourage private lenders to contribute to the huge investment required to address the most urgent global challenges, and ensure sustainable development.



Climate

The climate issue has a potentially wide-ranging impact on the living conditions of future generations, and thus on Andra AP-fonden's return and goal fulfilment. It therefore has a particular focus for the Fund.

The Fund's goal is for the entire portfolio to be in line with the Paris Agreement, i.e. that the portfolio's greenhouse gas emissions must decrease at a rate that can limit global warming to 1.5 degrees Celsius. The Paris Agreement stipulates that net zero emissions must be achieved by 2050 at the latest. Since Sweden has undertaken to achieve the more ambitious target of net zero emissions by 2045, AP2 believes this goal should apply to the Fund as well.

Where relevant, climate issues are integrated into the Fund's analysis and decision-making processes for all asset classes. The Fund's aim is for the portfolio to be in line with the Paris Agreement by 2025, which means that a relevant plan for how each asset class will reduce their greenhouse gas emissions towards net zero.

The starting point for AP2's climate work is to contribute to a transition in line with the Paris Agreement by

- making targeted sustainable investments
- supporting the transition
- divesting from climate risks.

Targeted sustainability investments

AP2 holds investments in various asset classes that contribute to the transition, including sustainable infrastructure, green bonds, Swedish cleantech companies, private equity funds and timberland real estate.

Sustainable infrastructure is an area with significant investment needs as both energy and transport systems need to undergo rapid adjustments for society to be able to manage the climate transition. In 2022, the Fund expanded its allocation to this asset class and has now completed a total of seven investments.

Green bonds, an asset class in which the Fund has been investing since 2008, contribute to the climate transition by financing the expansion of renewable energy production.

The Fund's Swedish cleantech portfolio now comprises eight companies. Two of the companies are developing wind power, three work with energy efficiency improvements and three with material efficiency. Several of the private equity funds in which AP2 invests are also focused on companies whose products and services contribute to the climate transition.

Sustainable forestry is important for achieving net zero emissions, which is why the Fund has decided to establish criteria that an investment in timberland real estate must satisfy to be defined as a sustainable investment.

SUSTAINABILITY REPORT

Find out more about targeted sustainability investments on page 34 of AP2's separate Sustainability Report.

Supporting the transition

The underlying goal of AP2's climate work is to contribute towards reducing global emissions so that the Paris Agreement's target of limiting global warming to 1.5 degrees Celsius can be achieved. It is therefore important to clarify the drivers behind changes in the portfolio's emissions, and the extent to which these changes contribute to actual reductions in global emissions. The Fund could potentially achieve its reduction targets solely by moving the portfolio to assets with low emissions.

However, the EU Paris-Aligned Benchmark, which the Fund has implemented for its listed equity and credit portfolios (see page 37), requires exposure to high-impact sectors to be retained. This means that the reduction cannot be achieved by opting out of entire sectors, but by companies in these sectors cutting their emissions.


AP2 has also developed a method for monitoring how changes in emissions can be attributed to either changes in holdings, or to actual changes in companies' emissions.

Since it is only changes in companies' emissions that represent actual emissions reductions, this is the focus for the Fund's climate strategy and its efforts to contribute to the transition. Companies' emissions and their plans to cut emissions are analysed and form the basis of the engagement pursued by the Fund.

AP2 participates actively in Climate Action 100+, a five-year international dialogue initiative launched in December 2017. The approximately 700 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 these companies to reduce their emissions to a level in line with the Paris Agreement, for them to report in accordance with the Task Force on Climate-related Financial Disclosures (TCFD), and for their boards take clear responsibility for the work of addressing climate change. During the year, an assessment was published, examining how far the companies have come within these three areas, in the Climate Actions Net Zero Company Benchmark. It revealed that many companies have made ambitious climate commitments, but that they need to improve at reporting how they plan to deliver on their 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 2022, this constructive dialogue focused on the company's goals and action plan to achieve net zero emissions by 2050.

AP2 also supports an expectations document for banks – Aligning the Banking Sector with the Goals of the Paris Agreement – which has been produced by the Institutional Investors Group on Climate Change, IIGCC. It includes a requirement for net zero commitments by 2050, for boards to have sufficient climate



Divesting from climate risks

Climate risks have a unique position among sustainability risks, because the consequences of climate change are both wide-ranging and complex. Significant climate change can arise suddenly when a tipping point is reached, which can also trigger a domino effect involving further negative consequences. Substantial social changes will occur as part of 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 include regulatory, technological, market and brand risks. Physical risks include acute and systematic risks.

Since neither physical climate risks nor transition risks are entirely and fully priced on the financial markets, such sudden changes can have a significant impact on the value of various assets.

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 these 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 selection is based.

In 2020, AP2 implemented the EU Paris-Aligned Benchmark (PAB), see fact box on page 37, for the Fund's foreign equities and corporate bonds that are managed in-house. This means that the Fund does not invest in companies for which more than a certain percentage of sales is generated from coal, oil and/or gas, or in power companies where over 50 per cent of revenue comes from fossil fuel combustion. 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 being excluded from the Fund's portfolio.

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



SUSTAINABILITY REPORT

Why the EU Paris-Aligned Benchmark?

AP2 recognises that there is significant value in aligning its indices to 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.

The main purpose of adapting portfolio

holdings in equities and corporate bonds in accordance with the EU Paris-Aligned Benchmark is to encourage companies to reduce their greenhouse gas emissions. Companies with significant emissions that are not making reductions will find it harder to finance their operations, while companies with reduced and/or lower emissions will find it easier. The framework includes the requirement for a PAB-adjusted index to initially have a carbon footprint that is

max. 50 per cent of the benchmark; in AP2's case the corresponding market-weighted index. This footprint then needs to decrease by 7 per cent per year, with the goal of achieving net zero emissions by 2050. This means that the carbon footprint will be 24 per cent by 2030 and 6 per cent by 2050, compared with the market-weighted index for 2020.

In 2022, the Fund also implemented a PAB index for the management of Swedish equities.

expertise and for the banks to report in accordance with TCFD.

Developed metrics

AP2 is working on various metrics to describe the portfolio's performance 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 carbon footprint that is due to portfolio companies changing their emissions, and the proportion attributable to changes in company holdings. It is only when companies reduce their actual emissions that emissions to the atmosphere are reduced, and climate change is limited. To contribute to the transition, the Fund uses various means to encourage portfolio companies to change course and reduce their carbon emissions.

Follow-up of Paris-Aligned Benchmark

The chart on the left of the following page shows the curve below which the global equities portfolios' carbon footprint must remain to comply with the criteria for PAB. The chart on the right shows the credit portfolios' carbon footprint in relation to a market-weighted index. These footprints include Scopes 1 and 2 as well as 3 in certain sectors in accordance with the PAB framework. This means that both direct and indirect emissions are included, as well as those arising in the supply chain, and emissions from products and services.

The curves in the charts show the expected trajectory, with an annual reduction of 7 per cent.

SUSTAINABILITY REPORT

The points in the charts illustrate the outcome for the portfolios and the benchmarks that govern them. The carbon footprint for 2022 follows the expected curve, however with an increase to 39 (27) per cent for equities and 43 (20) per cent for corporate bonds compared with their market-weighted indices. The Fund intends to keep the footprints of its portfolios below the respective trajectories over time, but performance is expected to vary from year to year. One reason for the increase in 2022 was the inclusion of Scope 3 for a number of sectors.

Further data about the Fund's other carbon footprint metrics is available on page 50. These are commented on in the Fund's separate Sustainability Report.

Collaboration and climate commitments

Many of the dialogues in which AP2 participates with decision-makers on the issue of climate are conducted along with other investors via the Institutional Investor Group on Climate Change (IIGCC). The organisation focuses on making investors' engagement on the climate issue clear for decision-makers, and conveying investors' requirements for policy action.

At the beginning of 2021, the Fund signed the Net Zero Asset Owner Commitment, which was produced by the IIGCC's Paris-Aligned Investment Initiative, and is accredited by the UN Framework Convention on Climate Change as a Race to Zero initiative. This means that the Fund follows the initiative's procedures in relation to a number of specific

commitments. Find out more on page 19 of AP2's separate Sustainability Report.

Ahead of the 2022 climate conference in Egypt (COP27), AP2 opted to sign the Global Investor Statement to Governments on the Climate Crisis. In the statement, which was signed by a total of around 530 international investors, governments were urged to raise their climate ambitions and implement the policies required to enable the investments needed to achieve net zero emissions.

Transparency through TCFD

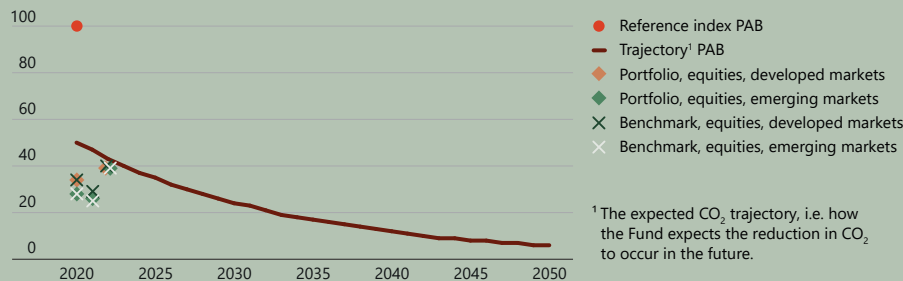
For the fifth consecutive year, AP2 published a report in accordance with the TCFD framework. The Fund supports this framework, because it increases companies' transparency by giving investors the information they need

to assess climate-related risks and opportunities. Find out more on page 47.

Internal environmental work

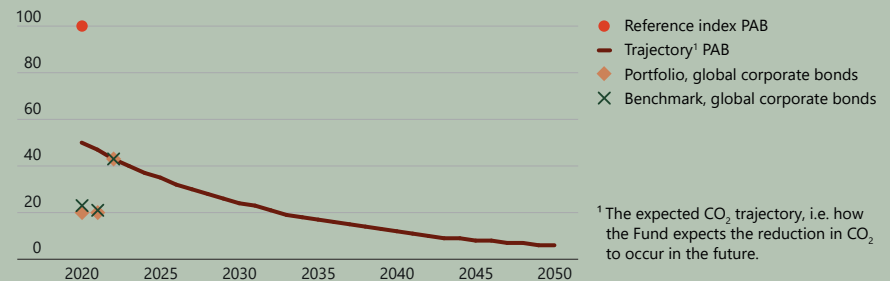
The Fund's own direct environmental impacts are relatively limited. An internal environmental review shows that the greatest environmental impact from AP2's office comes from electrical energy consumption and carbon emissions associated with travel. The Covid-19 pandemic continued to affect the Fund's travel in 2022, which means that the Fund's emissions are still lower than in 2019. Internal targets have been established based on the Fund's environmental policy, including 99 per cent of all business journeys between Gothenburg and Stockholm being made by train.

CARBON FOOTPRINT IN PAB-ADJUSTED EQUITY PORTFOLIOS COMPARED WITH A MARKET-WEIGHTED INDEX, %



¹ The expected CO₂ trajectory, i.e. how the Fund expects the reduction in CO₂ to occur in the future.

CARBON FOOTPRINT IN PAB-ADJUSTED CREDIT PORTFOLIOS COMPARED WITH A MARKET-WEIGHTED INDEX, %



¹ The expected CO₂ trajectory, i.e. how the Fund expects the reduction in CO₂ to occur in the future.

Biodiversity

In 2022, biodiversity was added as a new focus area for Andra AP-fonden's sustainability work. Biodiversity – diversity within species and between species and ecosystems – is declining at a faster rate than ever before in the history of humankind, with far-reaching consequences for the environment, people and economies. There is also a strong and complex link between biodiversity and the Fund's focus areas of climate and human rights.

AP2 will contribute to a net positive impact on nature by 2030

AP2 has defined the above as a long-term goal for its work with biodiversity. This goal is consistent with the global commitments that are required, alongside reduced emissions, to limit global warming to 1.5 degrees Celsius and to preserve critical ecosystems.

The Fund has also established a more specific overall goal focusing on deforestation, which is a main cause of biodiversity loss. It means that by 2025, AP2 will have a portfolio that does not contribute to illegal deforestation. This goal is also consistent with the com-

mitment of a deforestation-free portfolio that AP2 made in connection with COP26, and with the Fund's climate commitment of net zero greenhouse gas emissions by 2045. A policy for zero tolerance of deforestation has been in place in the Fund's Brazilian farmland investments since 2018. Find out more on page 40.

New policies

As a starting point for AP2's work with biodiversity, the Fund has included a section on biodiversity in its updated sustainability policy.

This also contains a more detailed policy on deforestation and land-use change, which will constitute an expectations document in the Fund's engagement in this issue.

Focus on deforestation and value chain for food and forest

Given the extent and complexity of the area of biodiversity, the Fund has to prioritise its work. This is done according to the double materiality principle, which is also in line with the Taskforce on Nature-related Financial Disclosures' (TNFD) draft recommendations, which form the future framework for biodiversity reporting.

Initially, work will be focused on land use, and more specifically, deforestation. According to an IPBES¹ report, which gives a summary of research in this area, land use is the most significant reason for loss of biodiversity. Further-





more, from a system perspective, the issue is highly relevant to AP2's focus areas of climate and human rights. Based on an analysis of the Fund's exposure to land use, looking at dependency and impact, work will begin with a focus on the value chain for food and forest within the asset classes timberland and farmland real estate, and listed equities.

This work has been ongoing for many years within AP2's investments in timberland and farmland real estate, and it is an integral part of work with the Fund's managers. AP2's managers apply well-established and scientifically designed forestry and agricultural systems to minimise negative impact. The Fund's timberland managers must be certified according to international standards that require management of entire ecosystems, and zero tolerance of deforestation.

AP2 has been involved in defining the Guidance for Responsible Investment in Farmland, which are adhered to by the Fund's managers for farmland real estate. In 2018, AP2 was involved in developing a policy for zero tolerance of deforestation in its Brazilian farmland investments. The policy includes an in-depth strategy for tackling deforestation by taking account of the original natural vegetation and increasing reforestation, thus halting the loss of biodiversity. AP2's managers use satellite-based mapping technology, sometimes combined with information on biomass measurement, to determine whether a farmland property is complying with the policy.

An analysis of the portfolio has been conducted within listed equities to identify companies associated with a high risk of deforestation. When it comes to the food value chain,

companies have been ranked according to how they manage the risk of illegal deforestation. 14 companies were identified as high risk, and have therefore been prioritised in this engagement work, which began in autumn 2022. This is largely being carried out under the remit of a collaboration between investors who have signed the commitment on a deforestation-free portfolio, Finance Sector Deforestation Action (FSDA).

Collaborative approaches within biodiversity

AP2 works with other investors in this area. During the year, the Fund signed the Finance for Biodiversity initiative and is contributing to the development of a future reporting framework via the Taskforce on Nature-related Financial Disclosures (TNFD) focus group. AP2 is also a

member of the working group for Brazil within the Investor Policy Dialogue on Deforestation (IPDD) investor collaboration. They are working to establish a dialogue with politicians and decision-makers in key countries.

A challenge when addressing biodiversity is to identify relevant performance indicators, measure progress and integrate effects on ecosystems into financial decision-making. AP2 is therefore a partner of the research project BIOPATH, which is funded by the Swedish Foundation for Strategic Environmental Research (Mistra). BIOPATH will work with its partners to analyse, evaluate and jointly develop existing and new approaches, in which biodiversity is integrated into financial decision-making.

¹ Global Assessment Report of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, 2019, <https://ipbes.net/global-assessment>

Diversity, equity and inclusion

One of the first governance issues that Andra AP-fonden 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 using 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 gender equality, and diversity is one of the factors in the Fund's internally-developed indices.

During the year, the Fund decided to expand its diversity focus area to cover equity and inclusion as well. A strategy has been approved, and short and long-term targets defined. Find out more on page 31.

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 innova-

tive and creative, which in turn will create prosperous and successful companies. Since 2003, the Fund has been conducting a study to measure the proportion of women at middle-management level, in executive management teams, and on the 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.

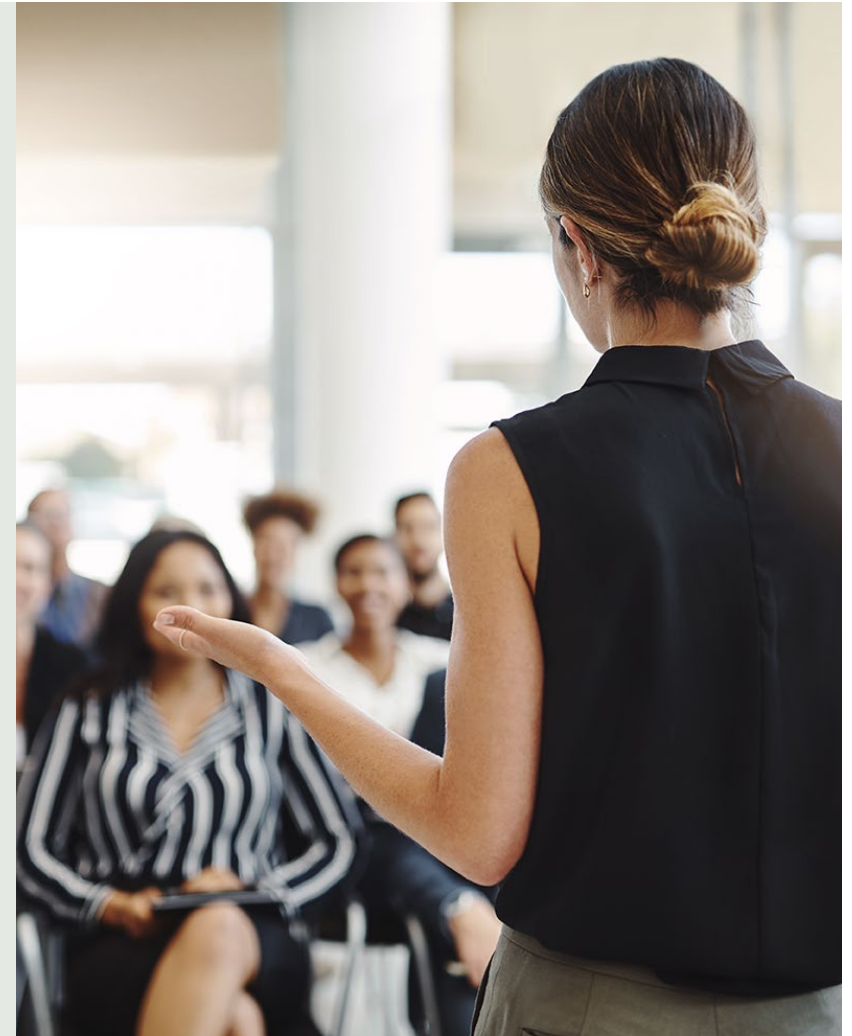
The Index of Female Representation for 2022 shows that the proportion of women on boards and in executive management teams of companies listed on Nasdaq Stockholm is the highest it has ever been. The proportion of female board members is continuing to rise, and currently stands at 35.4 (34.5) per cent. This is the highest recorded level since the survey began.

The proportion of women in management teams of listed companies is also continuing to increase. This year's increase, from 26.0 to 27.2 per cent, is the largest measured in percentage points since the surveys began. Over time, primarily in the past decade, the trend in management teams has exhibited greater stability compared with boards. However, the long-term trend is clearly positive in terms of boards as well.

Despite the percentage of female board members increasing, the number of women holding the position of chair remains unchanged at 30 of a total of 356 companies. The number of women who are CEOs of listed companies totals 43.



READ THE ENTIRE INDEX OF FEMALE REPRESENTATION REPORT ON AP2'S WEBSITE.



Letter to companies with inadequate diversity

During the year, AP2 and AP3 wrote a joint letter to the chairs of boards and nomination committees at companies in which they have holdings, and where the board comprises less than 30 per

cent women or men. The letter urges the nomination committees to make every effort to improve diversity on their boards of directors.



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 of 2025 at the latest.

Due diligence process

AP2 is exposed to a risk of negative impacts on human rights in several situations, including via its role as employer, customer of suppliers and counterparty to other financial institutions, and as an asset owner and asset manager.

AP2's assessment is that the most serious negative impact to which the Fund can have a connection can be found in the role of asset owner and asset manager. This means that there is a risk of the Fund being linked to, or contributing to, negative impact through the businesses in which the Fund has invested. AP2 has therefore given special focus to the work of integrating human rights issues into its investment processes. This is done via a due diligence process that includes identification and assessment of risks in the Fund's

holdings, management of these risks and regular evaluation and reporting.

Identification of risks

AP2 has analysed risks of potential and actual negative impacts linked to its investments. Potential negative impact refers to situations where there is a risk of a negative impact occurring, and where the Fund works proactively to prevent such impact. Actual negative impact refers to situations where a negative impact has affected individuals and groups, and where the Fund works reactively to minimise the negative impact.

The starting point for the risk assessment lies in the risk to human rights, and not commercial risk to the Fund's operations. AP2 uses a quantitative data model developed in-house to identify potential risks. The purpose of the model is to systematically identify the Fund's risks and monitor them over time, and prioritise where the Fund should focus its preventive efforts based on the severity of the risk.

Actual negative impact on human rights within the Fund's listed holdings is identified and managed via the AP Funds' Council on Ethics, which uses the approach of dialogue and engagement. Find out more about the Council on Ethics at etikradet.se

SUSTAINABILITY REPORT

Management of risks

AP2 has identified serious human rights risks linked to the textile and mining sectors in China, with a particular focus on a living wage, the risk of forced labour and health and safety issues. Since 2021, the Fund has engaged in dialogue within these two sectors, and is working actively with selected portfolio companies. The dialogues are conducted either by AP2 alone, or alongside other investors through various platforms, including the Investor Alliance for Human Rights. The Fund also participates in 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, and which lobbies for a living wage primarily in the textile and food industries.

As part of AP2's engagement with companies, the Fund held a training session in autumn 2022 on the UN Guiding Principles on Business and Human Rights for those companies with which AP2 has an active dialogue.

Report and follow-up on human rights

The Fund uses various types of metrics to follow up on its work. As part of the proactive identification of risks, metrics are used that assess risks in sectors and countries based on 11 human rights. These risks are monitored over time. For companies with which the Fund is entering into a dialogue, targets are estab-

lished based on defined performance indicators and milestones. The work is reviewed regularly.

In 2019, AP2 was one of the first investors in the world to publish a report on its human rights work in accordance with the UN Guiding Principles Reporting Framework. The second report was published in 2021. The reports describe how the Fund views its responsibility to respect human rights and the processes which the Fund has in place to integrate human rights into its activities. AP2 intends to publish a separate report every other year on its work with human rights.


Reasons for excluding countries

AP2 has produced a framework that identifies countries where there are financial, operational or sustainability reasons for not investing. This framework is built around the UN Guiding Principles on Business and Human Rights and the Fund's human rights policy. With regard to sustainability reasons, crimes against human rights may constitute a reason not to include countries in its benchmarks. Find out more in the Fund's Sustainability Report on page 23.



AP2'S HUMAN RIGHTS REPORT AND HUMAN RIGHTS POLICY ARE AVAILABLE AT WWW.AP2.SE



 **Human rights policy**

In AP2's human rights policy, the Fund defines its responsibility to respect human rights, as well as its expectations of employees, suppliers and business partners. 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 autumn 2022, the Fund carried out a compulsory training session and workshop on the policy for all of its employees.

Corporate governance

The background to the Fund's corporate governance work lies in its overall mission, where, among other things, it states that Andra AP2-fonden 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 corporate governance principles within which the Fund considers it important to have a standpoint and take action 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 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 and dialogue, along with collaboration and joint initiatives with other institutional owners.
- 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 in place to supplement the existing corporate governance policy, for a greater understanding of what AP2 expects of companies in areas such as sustainability and corporate governance. The guidelines are based on the above-mentioned corporate governance principles, and the Fund thus strives to provide clarity on various positions at both Swedish and global general meetings.

In 2022, AP2 voted at 121 (134) general meetings of Swedish listed companies. The market value of the Fund's holdings in these companies is equivalent to 77 (86) 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 2022, it voted at 1 261 (1 092) general meetings of companies in foreign markets. This is equivalent to 65 (53) per cent of the Fund's global portfolio, expressed in market value terms.

During the 2022 AGM season, AP2 was represented on nine nomination committees. Further details of AP2's corporate governance work during the year can be found in the Fund's separate Sustainability Report.



THE VOTING GUIDELINES ARE AVAILABLE AT WWW.AP2.SE

Shareholder proposal concerning climate lobbying

For several years, attempts have been made to submit proposals to Volkswagen's AGM. However, these have been rejected by the company. AP2 has therefore joined forces with AP7, the Church of England Pensions Board, Danish AkademikerPension and AP3 and AP4 to take the matter to a German court of law in Braunschweig. The court will determine whether Volkswagen is entitled to refuse to add a proposal from minority shareholders to the agenda for the 2023 AGM.

Shareholder proposal regarding union rights

At Amazon's AGM, the Shareholder Association for Research & Education (SHARE) put forward a shareholder proposal with demands for an investigation and report on compliance with ILO's (International Labour Organization) conventions, including regarding union rights. The proposal was widely supported by the shareholders, however did not receive sufficient support to be adopted by the AGM. The absence of any clear action from the Board subsequently has resulted in the issue being escalated in the form of a letter to the company, signed by several institutional owners, including AP2. The letter urges the Board to show a higher level of engagement regarding freedom of association and collective bargaining, and other rights at the company's workplaces.



Sustainability targets as performance targets in incentive schemes

In the autumn, AP2 worked with other members of IÅF (Institutional Owner Association) to develop a joint view on sustainability in Swedish companies' remuneration programmes, which will form the basis of dialogues with the boards of directors of companies in which AP2 is a shareholder. The view is based on the conviction that strategic work with sustainability issues is a prerequisite for a company's long-term sustainable value creation and return.

AP2 will therefore henceforth strive to obtain clarity and transparency around how sustainability issues, which are essential to companies' long-term financial performance, are reflected in remuneration programmes and how these programmes as a whole contribute to the company's business model, strategic direction and established goals.

Contributing to the UN's Sustainable Development Goals

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

Each country is responsible for implementing and monitoring the Sustainable Development Goals. Achieving the goals requires governments, civil society and the business sector to work together.

The 17 Sustainable Development Goals are integrated and indivisible, which means that no goal can be achieved at the expense of another, and that success is required within all areas for the goals to be achieved. The Paris Agreement is an integral part of the UN Sustainable Development Goals. As a global investor, AP2 has an opportunity to contribute to the goals in various ways via its sustainability work and through the investments the Fund makes.

¹www.impactprinciples.org

²www.impactmanagementproject.com

AP2's impact on the UN global goals

Over the past year, AP2 has looked at how to help the Fund understand and measure the impact of its investments on people and the environment, using the global goals as a reference. The evaluation has had two aims:

- to be able to implement targeted sustainability investments in such a way that the Fund is able to set goals, measure and follow up the expected positive impact of these investments
- to understand and be able to manage impact risks and opportunities throughout the listed portfolio.

Targeted sustainability investments

AP2 has developed a framework for identifying those investments that are defined by the Fund as targeted sustainability investments. The Fund's targeted sustainability investments must satisfy a number of criteria linked to the UN Sustainable Development Goals. The investments are evaluated based on the Operating Principles for Impact Management¹ framework, and an investment's impact is assessed based on the five dimensions in the Impact Management Project²:

- **what** the intended outcome is
- **who** experiences it
- **how much** of the outcome is experienced



EXAMPLES OF TARGETED SUSTAINABILITY INVESTMENTS

Green and social bonds

The Fund has been investing in green and social bonds for some time. 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 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.

There is currently no defined reporting standard for these bonds. Consequently, reporting varies considerably depending on such factors as the issuers' areas of activity, and where they operate. However, AP2 aims 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). Find out more 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.

SUSTAINABILITY REPORT

- **the contribution** of the investment to that outcome
- **risks** associated with the investment.

The market value of the Fund's targeted sustainability investments at year-end 2022 was SEK 35.4 (32.8) billion, which includes the following assets:

- Sustainable infrastructure
- Swedish listed cleantech equities
- Timberland that satisfies ten criteria for sustainable timberland investments
- Certain private equity funds with a clear focus on sustainability
- Green bonds
- Social bonds.

One purpose of the work is to develop clear follow-up and reporting procedures on per-

formance indicators that illustrate the impact of the investments. It could, for example, involve performance indicators that show the amount of greenhouse gas emissions that have been avoided, or how much renewable energy has been generated. The expected impact is evaluated ahead of each investment, while performance indicators are established for follow-up over time once the investment has been made.

For some investments it is difficult to find an accurate indicator that satisfies the five criteria in the Impact Management Project. If, for example, diesel vehicles are replaced with electric vehicles, there are several operators that would be able to claim that they have contributed to reducing emissions – such as car manufacturers, car battery producers and manufacturers of car charging units. AP2 opts

to take a conservative route and, for example, will not measure a theoretical figure for Northvolt's avoidance of emissions from the vehicles in which the company's batteries are assembled, but instead the capacity for energy storage that this company is contributing to more directly.

Analysis of the impact of listed assets

In 2022, AP2 analysed the entire listed portfolio based on its impact on the UN Sustainable Development Goals (SDG). One aim of the analysis is to gain a better understanding of the impact of the portfolio companies' products and/or services, which is not picked up via existing performance indicators in the companies' sustainability reporting. The ambition is to be able to identify and manage impact risks and opportunities.

Based on the Fund's sustainability focus areas, AP2 has defined which of the global SDGs the analysis is focused on, and within these, which have focus on companies' products and activities respectively. The impact analysis is then integrated into the Fund's strategy, and follow-up is carried out within each focus area. Below is an illustration of which SDGs are followed up within each focus area.

Going forward, an analysis of the portfolio will be conducted at least twice annually. All companies identified as high risk in terms of negative impact on any of the global goals will be handled within the framework of risk management and engagement within each focus area.

	Climate	Biodiversity	Human rights	Diversity, equity and inclusion	Corporate governance
Product					
Operations		 	 	 	 

Summary and sustainability data

2022 Climate Report according to TCFD framework

Andra AP-fonden has been reporting in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) since 2017. This is a separate report, and the Annual Report only provides a summary. Find out more at www.ap2.se



	Disclosure	Reporting	
Governance	<ul style="list-style-type: none"> a) The Board's supervision of climate-related risks and opportunities b) Management's role in assessing and handling climate-related risks and opportunities 	<p>AP2's Board receives regular information on the Fund's sustainability work, which includes climate-related issues. The Board has the opportunity to discuss sustainability issues, including climate issues, at each meeting.</p> <p>All senior executives have a responsibility to take climate issues into</p>	<p>account according to their various roles. Since the Fund is a small organisation, where several senior executives are directly engaged in climate-related work, 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.</p>
Strategy	<ul style="list-style-type: none"> 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 	<p>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 down 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 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.</p> <p>Asset management works actively to include climate risks and opportunities in its analyses and to find investment opportunities for different asset classes. For example, in 2022, the Fund has continued with the implementation of multi-factor indices for both equities and corporate bonds, in</p>	<p>accordance with the criteria for the EU Paris-Aligned Benchmark. Find out more on page 37. In the Swedish equity management, a cleantech portfolio is taking shape. The Fund is continuing to invest in the sustainable infrastructure asset class, which is an area with a great need for investment. The most recent investment, Copenhagen Infrastructure Partners (CIP), focuses on investing in infrastructure for bioenergy, which contributes to the energy transition in sectors that are highly dependent on fossil fuels.</p> <p>AP2 has investigated how different climate scenarios can be included in the choice of overall strategic asset allocation. It is hoped that developing the portfolio in line with the Paris Agreement will enable the Fund to create a climate-resilient portfolio.</p>
Risk management	<ul style="list-style-type: none"> a) Process for identifying and assessing climate-related risks b) Process for managing climate-related risks c) Integration of climate-related risks in overall risk management 	<p>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 strategic sustainability work and for implementation and follow-up. Ongoing work</p>	<p>is handled by the Fund's various departments.</p> <p>The Fund's risk system includes available climate data that enables analyses of the Fund's portfolio. For example, fund management has access to a tool that, on a day-to-day basis, makes carbon footprint data available for the Fund's equities that are managed in-house.</p>
Metrics and targets	<ul style="list-style-type: none"> a) Metrics used to assess climate-related risks and opportunities b) Reports concerning greenhouse gases c) The goals used by AP2 to manage climate-related risks and opportunities, as well as performance against targets 	<p>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 of the PAB-adjusted portfolios' carbon footprint against the curve, which the PAB framework has determined to be in line with the Paris Agreement.</p>	<p>AP2's annual carbon footprint is calculated for portfolio holdings at 31 December using the latest available carbon data. The carbon footprint data can be found on page 50.</p> <p>AP2 works continuously to improve risk information at mandate, asset class and fund level.</p>

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 summary for the work on climate issues under TCFD can be found on page 47.



Human rights and social conditions



Labour rights



Anti-corruption

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 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 Head of Strategy. The Fund's CEO holds ultimate responsibility for the work. The Board of Directors receives regular reports on the Fund's work as part of corporate governance and sustainability reporting, and decides on the exclusion of portfolio companies.

The CEO is responsible for ensuring policies and plans are drawn up. The overall work is planned and followed up by the Fund's HR Manager. Together with 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, employee participation, recruitment and workforce planning. AP2 works actively on such issues as gender equality, diversity, health and safety and anti-discrimination.

The work is based on the Fund's equality and diversity plan, health and safety policy and anti-discrimination policy. All employees are informed of the Fund's policies and guidelines when they join. 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 observe Swedish Anti-Money Laundering legislation, even though the Funds do not legally fall under this legislation. An anti-money laundering policy was drawn up in 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, spot checks and controls, and ensures that 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). The Fund has acquired tools for the continuous training of all staff members in these issues, so as to enhance awareness of compliance and preventing corruption.

The Fund's compliance function also conducts regular spot checks 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, which is included in the report on the fund companies in which AP2 intends to invest. The Head of Compliance also carries out an Annual Partner Review (APR), which analyses all companies within alternative investments to detect any indications of corruption.

Strategy

AP2 creates and hones processes to manage and mitigate its potential negative impact on human rights. As part of this work, the Fund focuses primarily on those risks that are deemed to be the most severe for those that may be affected. 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. AP2 therefore makes a conscious effort to integrate a human rights perspective into the processes that take place in connection with the investment, and in those that are linked to its role as asset owner.

AP2 is also proactive about building up expertise among the Fund's employees in this area. This is achieved via compulsory annual training sessions on human rights.

One element of AP2's long-term strategy is to use its own resources to steadily develop increasingly professional and cost-effective 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 established goals. AP2 will create the conditions to attract and retain employees with the skills and experience required for operations to be run in the best possible way. To be able to recruit and retain the right staff, the Fund seeks to offer its employees 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 should be close to the median for the reference group.

The Head of Compliance has completed a course in this area and, via an external consultant, provides AML training to all staff members of the Fund. Advanced courses on the subject have taken place for business areas that are particularly affected. 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



Human rights and social conditions



Labour rights



Anti-corruption

<p>Risk management</p> <p>In accordance with the UN Guiding Principles on Business and Human Rights, AP2 has developed due diligence processes to identify and handle actual and potential portfolio risks related to human rights. A human rights review of all companies within alternative investments took place in 2022 under the remit of the Fund's Annual Partner Review (APR). 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 AP2's human rights report, which is available on the Fund's website. AP2 also trains external parties in human rights. In 2022, the Fund provided human rights training for Chinese companies.</p>	<p>For AP2 it is important to be an attractive employer and workplace, in order to recruit and retain staff with the best skills. 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 therefore continuously works on professional development, with the aim of developing operations and achieving established goals.</p>	<p>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.</p> <p>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.</p> <p>However, the risks identified concerning financial violations are small. Due diligence processes and internal controls are in place in order to detect and proactively counter any money-laundering risks. The Fund's external whistleblower function also allows for anonymous reporting. Find out more about the whistleblower function on page 17.</p>
<p>Metrics and targets</p> <p>The Fund's goal is for operations to be conducted in line with the UN Guiding Principles on Business and Human Rights as of 2025.</p> <p>AP2 uses various types of metrics to follow up on its work. 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 11 human rights, including the right to a living wage. The companies identified as presenting a high risk of serious human rights violations are prioritised for dialogue. A target is defined for each dialogue and followed up regularly, based on specific KPIs and milestones in the dialogue process.</p>	<p>Based on AP2's business plan, targets and action plans are defined that are individual, department-specific and applicable to the entire Fund.</p> <p>Employees' performance and potential are analysed at annual appraisals. To identify focus areas that are expected to improve employee satisfaction and commitment, the Fund conducts regular employee surveys.</p>	<p>The Fund must have zero cases of corruption.</p>
<p>Results</p> <p>Implemented a systematic process for identification and management of risks in the portfolio. Ongoing dialogue with selected companies operating in high-risk countries or in sectors associated with high risk.</p> <p>Greater expertise in the area of human rights among the Fund's employees.</p>	<p>Low staff turnover and low sick leave figures. A good working environment with committed and motivated employees.</p>	<p>The Fund has no cases of corruption.</p>

Sustainability data

More detailed data is presented in the Fund's separate Sustainability Report for 2022.

Climate/Environment

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

Metrics	2022	2021	2020
1. Total carbon emissions (million tCO₂e)	1.05	1.17	1.44
Sweden	0.05	0.07	0.09
Developed markets	0.33	0.40	0.51
Emerging markets	0.67	0.70	0.84
Change in the portfolio's total carbon emissions from the previous year (%)	-9.8	-18.8	-14.6
– of which the change related to changes in the portfolio's holdings (% units)	-15.2	-9.3	-17.3
– of which the change related to changes in the companies' emissions (% units)	5.4	-9.5	2.7
2. Relative carbon emissions (tCO₂e/SEKm)	6.97	6.23	8.92
Sweden	1.49	1.75	2.58
Developed markets	4.61	4.25	6.70
Emerging markets	14.48	13.41	16.40
3. Carbon intensity (tCO₂e/SEKm)	8.82	10.09	12.73
Sweden	2.90	4.78	5.07
Developed markets	6.48	7.48	9.97
Emerging markets	13.10	14.77	18.85
4. Portfolio-weighted carbon intensity (TCFD)(tCO₂e/SEKm)	7.68	8.97	12.27
Sweden	2.78	3.48	4.15
Developed markets	6.92	8.10	10.93
Emerging markets	12.32	14.95	19.63
Change in the portfolio's carbon intensity (TCFD) from the previous year (%)	-14.3	-26.9	-22.8
– of which the change related to changes in the portfolio's holdings (% units)	5.8	-4.1	-33.4
– of which the change related to changes in the companies' carbon intensity (% units)	-20.1	-22.8	10.6
Market value of the Fund's portfolio covered by CO ₂ e data (SEKbn)	151	187	161
Proportion of the share capital for which data is available (%)	100	100	99

Carbon measurements as of and including 2020 are based on a broader universe of carbon data and a refined method of estimating greenhouse gas 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 dioxide equivalent) is a unit of measurement that enables comparisons of the climate impact of different greenhouse gases.

ENVIRONMENTAL DATA

	2022	2021	2020
Internal environmental indicators			
Electricity, kWh	79 004	64 928	80 000
Renewable electricity, %	100	100	100
Copying paper, purchased (A4), kg	90.5	0	0
Number of printouts	20 475	15 666	31 000
Business travel			
Proportion of train journeys between Gothenburg and Stockholm, %	99	98	98
Greenhouse gas emissions from:			
Rail, domestic, tonnes of CO ₂ e	0	0	0
Air, domestic, tonnes of CO ₂ e	0	0	0
Air, abroad, tonnes of CO ₂ e	80	0	2

Employees

EMPLOYEE STATISTICS

	2022	2021
No. of permanent staff	69	68
Female staff, %	36	35
Female staff in Executive Management, %	33	33
Proportion of women on the Board, %	55	55
Average age, years	48	47
Median age, years	49	48
Staff turnover, %	4.3	5.8
Absence due to illness, %	1.2	0.9

Corporate governance

NOMINATION COMMITTEES IN WHICH ANDRA AP-FONDEN PARTICIPATED PRIOR TO THE 2022 AGMS

Company	Proportion of women on the Board, %	Number of newly elected women ¹	Total change compared with previous year ¹
Better Collective	33	0	0
Catena Media	28	0	0
Coor Service Management	67	2	1
Episurf	33	0	0
Genovis	20	0	0
IAR Systems	40	1	1
Kambi	40	0	0
Loomis	43	0	0
Netel	43	2	1
Nine nomination committees in total		5	3

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

VOTING AT GENERAL MEETINGS 2018–2022

	2022	2021	2020	2019	2018
Swedish companies					
Voting at general meetings (annual and extraordinary) in Sweden, number	121	134	110	85	89
– equivalent to the % share of the number of companies in the Swedish listed portfolio	60	60	52	44	51
– equivalent to the % share of the Fund's total holdings in Swedish listed equities (market value)	77	86	75	73	81
Foreign companies					
Voting at foreign companies' annual general meetings, number	1 261	1 092	1 006	865	816
– equivalent to the % share of the number of companies in the global listed portfolio	52	52	44	37	35
– equivalent to the % share of the Fund's total holdings in global listed equities (market value)	65	53	38	33	31

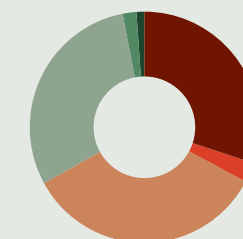
SWEDISH VOTING, SUMMARY OF DECISIONS

Area	Board's proposal			Shareholders' proposal		
	Num-ber	AP2 in favour	AP2 against	Num-ber	AP2 in favour	AP2 against
Board members and discharge from liability	300	299	1	2	–	2
Incentive schemes	187	163	24	–	–	–
Adoption of financial statements, appointment of auditors, etc.	393	393	–	–	–	–
Takeover defence	–	–	–	–	–	–
Capital structure, organisation, acquisitions	160	160	–	–	–	–
Environment and health	–	–	–	3	–	3
Corporate governance	217	217	–	3	–	3
Social issues and human rights	–	–	–	4	–	4
Total	1 257	1 232	25	12	0	12

GLOBAL VOTING, SUMMARY OF DECISIONS

Area	Board's proposal			Shareholders' proposal		
	Num-ber	AP2 in favour	AP2 against	Num-ber	AP2 in favour	AP2 against
Board members and discharge from liability	8 328	6 741	1 587	151	115	36
Incentive schemes	1 859	1 215	644	21	18	3
Adoption of financial statements, appointment of auditors, etc.	2 648	2 163	485	62	29	33
Takeover defence	99	47	52	–	–	–
Capital structure, organisation, acquisitions	1 682	1 221	461	4	4	–
Environment and health	16	9	7	52	46	6
Corporate governance	467	432	35	71	61	10
Social issues and human rights	54	54	–	149	118	31
Total	15 153	11 882	3 271	510	391	119

VOTING PER REGION, 2022, INCL. SWEDEN, %



■ North America, **30%**
■ Asia, **30%**
■ South America, **3%**
■ Oceania, **2%**
■ Europe, **34%**
■ Africa, **1%**

Board signatures

Andra AP-fonden has prepared a Sustainability Report inspired by Chapter 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 2022. The Sustainability Report comprises pages 29–51. Andra AP-fonden's statutory Sustainability Report follows the financial year and is published annually. The previous report was published in February 2022. No significant changes took place in the Fund during the reporting period. Andra AP-fonden presents a separate detailed Sustainability Report that is published on the Fund's website.

Gothenburg, 15 February 2023

Jan Roxendal <i>Chair</i>	Lin Lerpold <i>Vice Chair</i>	Martina Björkman Nyqvist
Hanse Ringström	Agneta Wallmark	Mikael Bohman
Kristina Mårtensson	Åsa Erba Stenhammar	Rikard Andersson

Auditor's statement regarding 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 2022 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 Auditor's opinion on 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, 15 February 2023

Helena Kaiser de Carolis
Authorised Public Accountant

Peter Nilsson
Authorised Public Accountant

FUND GOVERNANCE



FUND GOVERNANCE REPORT

Fund Governance Report

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 other operators on the Swedish market. This Fund Governance Report is inspired by the Code of Corporate Governance, while also taking account of 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 repre-

sent 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 their ability to promote the management of the Fund.

On 31 May 2022, the Government decided on a new Board, appointing Mikael Bohman and Rikard Andersson as new members to succeed Christer Käck and Johnny Capor. To date, the Government has chosen to implement twelve-month mandate periods for the Board members, whereby current appointments remain in effect until the Fund's income statement and balance sheet for 2022 have been approved.

The Board has full and undivided responsibility for the operations within the parameters established by the Swedish Parliament for the organisation of the Fund and the management of its assets. In instances where the work of the Board is not regulated by the

provisions of the National Pension Insurance Funds Act, it is regulated by the rules of procedure annually adopted by the Board.

Fees and other remuneration paid to the Board members are determined by the Swedish Government. Annual remuneration is SEK 200 000 to the Chair, SEK 150 000 to the Vice Chair and SEK 100 000 to the other members of the Board. The 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 business plan, its vision for 2023 and a review of the asset management strategy, as well as a presentation on the structure and governance of sustainability work. The meeting also dealt with strategic matters, focusing on the changes to the strategic portfolio that could be proposed at the Board's December meeting. 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 their role as experts or to present a report. The CEO's performance is evaluated once a year. The CEO does not attend this meeting.

Member of the Board	Remuneration Committee	Risk Committee	Audit Committee	Attendance/total no. of meetings	Comments
Jan Roxendal	X		X	6/6	
Lin Lerpold	X			6/6	
Åsa Erba Stenhammar				5/6	
Agneta Wallmark		X		6/6	
Christer Käck				2/2	Left the Board in May 2022
Johnny Capor				2/2	Left the Board in May 2022
Kristina Mårtensson				6/6	
Martina Björkman Nyqvist				5/6	
Hanse Ringström				6/6	
Mikael Bohman			X	4/4	Appointed in May 2022
Rikard Andersson		X		4/4	Appointed in May 2022

FUND GOVERNANCE REPORT

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 2023.

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 effectiveness of the Fund. Its annual responsibilities include decisions to approve the year-end accounts, the budget, business plan and strategic portfolio.

Board committees

The Board has set up a Remuneration Committee. The Remuneration Committee consists of the Fund's Chair and Vice Chair. The CEO and HR Manager are 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 and establishing guidelines for the remuneration of the Fund's Executive Management. 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 is 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 Risk and Return Analysis 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 cases where such authority has been delegated by the Board. The responsibility of the Board and its individual members is in no way limited by the establishment of the Risk Committee or its duties. The Committee holds at least six meetings a year, one of which is a joint meeting with the Audit Committee, and performs its duties according to rules of procedure set by the Board annually. In 2022, the Risk Committee examined trends in relation to financial and operational risks, and 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, Head of Finance and Business Control 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 cases where such authority has been delegated by the Board. The responsibility of the Board and its individual members is in no way limited by the establishment of the Audit Committee or its duties. The Audit Committee held five meetings in 2022, one of which was a joint meeting with the Board's Risk Committee for the annual review of the Fund's progress on operational risks and compliance reporting. During the year, the Committee's main focus has been monitoring the internal audit services adopted 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 for 2022 was conducted by means of a questionnaire early in the year, which was followed up via interviews with all Board members and the CEO, using an external consultant. The results of the evaluation were 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.

Audit

Andra AP-fonden's auditors are appointed by the Swedish Government. On 31 May 2022, 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 Andra AP-fonden's income statement and balance sheet for 2022.

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 audit assignment also involves 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 that have been prepared provide a true and fair picture of the organisation.

The work has also included determining that Andra AP-fonden has prepared a Sustainability Report, as well as reviewing the

FUND GOVERNANCE REPORT

Fund's remuneration guidelines 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 responsibility, 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.

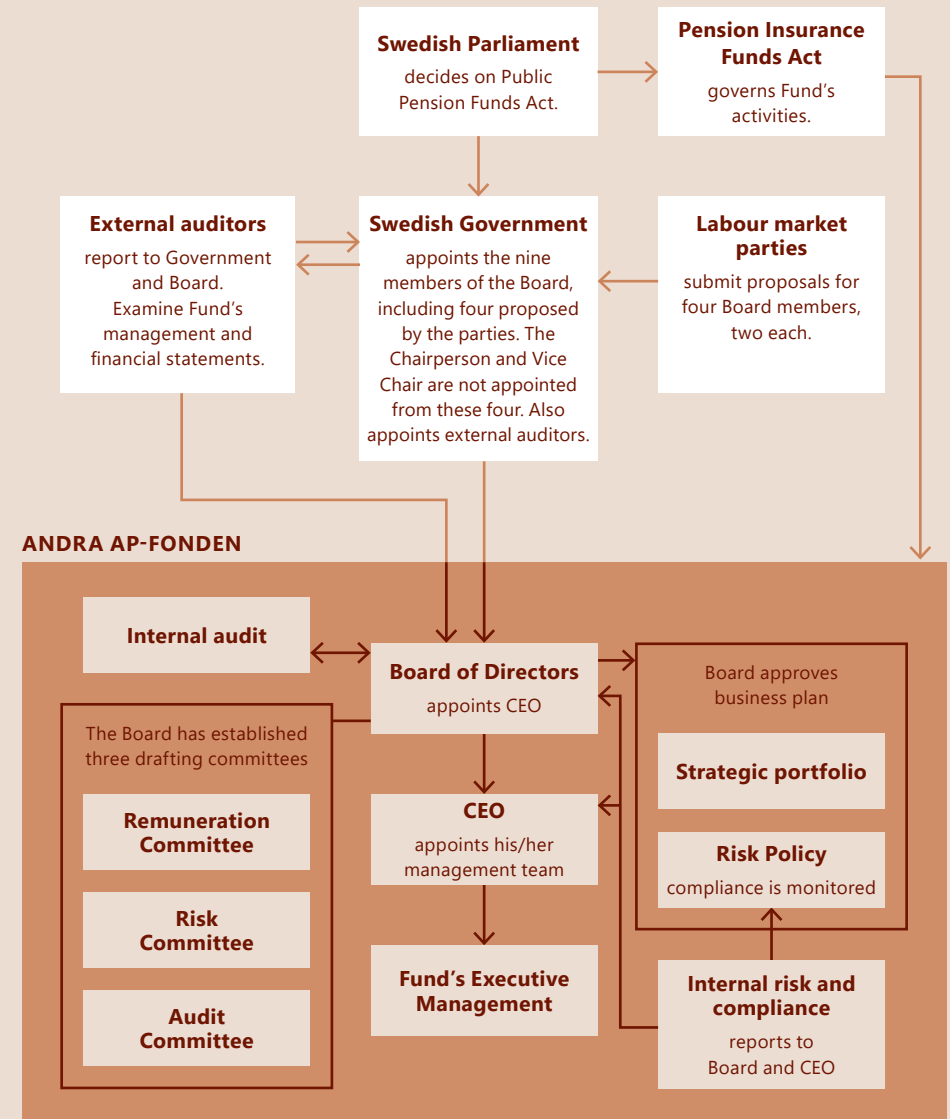
Andra AP-fonden uses the Three Lines of Defence model as a structured process to ensure that its risk management and control systems are effective. Asset Management which, according to the model, is primarily considered to be the first line of defence, has ownership of the risk. It has the delegated responsibility to implement the Fund's approved 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 Man-

agement Department is organisationally independent of the functions that take active business decisions. 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 includes monitoring changes to applicable regulations and communicating 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 2022 entailed an audit of the Fund's critical processes and its work with data security and personal data processing.

Reporting of the completed audit takes place in February 2023.



FUND GOVERNANCE REPORT

Board of Directors


Jan Roxendal

Chair since 2018, Board member since 2017. Member of the Board of Catella 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 Institute for Research and Alliance for Research on Corporate Sustainability. Born 1964.


Mikael Bohman

Member of the Board since 2022. Degree in Market Economics, DIHM. CEO of Sparbanken Västra Mälardalen. Chair of BAO and has several directorships. Born 1965.


Rikard Andersson

Member of the Board since 2022. Master in Business Administration. Interim manager and consultant. Member of the Board of Navigera Fonder AB and Chair of Legimeet AB. Born 1972.


Kristina Mårtensson

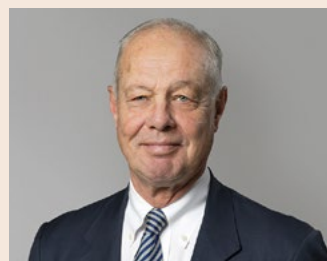
Member of the Board since 2015. MSc in Business and Economics. Administrative Director for the Kommunal trade union. Member of the Boards of Folksam LO Pension, LO Mediehus and En Frisk Generation. Born 1966.


Åsa Erba Stenhammar

Member 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. Professor of Economics at Stockholm School of Economics. Born 1974.


Hanse Ringström

Member of the Board since 2018. Self-employed. Member of the Board of SEB Ukraina, and others. Born 1948.


Agneta Wallmark

Member of the Board since 2021. Degree of Master of Laws, MSc in Business and Economics. Head of Group Treasury at Telia Company. Chair of Telia Försäkring AB, Board member of Telia's Pension Fund and Telia Lietuva. Born 1960.

FUND GOVERNANCE REPORT

Executive Management

**Eva Halvarsson**

CEO. Employed since 2006. Other roles: Board member of Vasakronan AB, UN-PRI, WIN WIN Gothenburg Sustainability Award, Engineering Science Academy (IVA), Misum and Finans-KompetensCentrum. Born 1962.

**Erik Klevång Callert**

Chief Investment Officer. Employed since 2022. Born 1970.

**Martin Jonasson**

General Counsel. Secretary to the Board. Employed since 2001. Other roles: Member of the De Blindas Vänner (Foundation for the Blind). Born 1964.

Auditors

Helena Kaiser de Carolis

Authorised Public Accountant, PwC.

Peter Nilsson

Authorised Public Accountant, PwC.

**Ulrika Danielson**

Head of Communications and Corporate Governance. Employed since 2009. Born 1965.

**Henrik Westergård**

Head of Risk and Return Analysis. Employed since 2012. Other roles: Board member of Varbergs Sparbank. Born 1973.

**Ola Eriksson**

Head of Business Support. Employed since 2001. Born 1965.

DIRECTORS' REPORT



Result and performance in 2022

At 31 December 2022, the Fund's capital stood at SEK 407.1 billion. The net result for the year, SEK –29.2 billion, mainly reflects the performance of Swedish and foreign developed equity markets, mitigated by a positive return on the Fund's unlisted investments. Andra AP-fonden's net outflow for the year to the national pension system was SEK 4.7 billion.

The Fund's capital is affected by two factors; the net result for the year and net flows within the pension system. In 2022, the Fund's

capital decreased by a net amount of SEK –33 933 (54 821) million, impacted by the negative result of SEK –29 244 (62 349) million, as well as by negative net flows of SEK –4 689 (–7 528) million to the pension system. The flows consisted of both pension contributions and pension disbursements, at a net amount of SEK –4 437 (–7 292) million, and expenses for administration of the pension system, which impacted the Fund's capital by SEK –252 (–236) million. For the fourteenth consecutive year, the net flow from the AP Funds to the pension system was negative. Over the past 14 years, Andra AP-fonden has disbursed a total of approximately SEK 77 billion to cover the ongoing shortfall in the pension system.

THE FUND'S CAPITAL GROWTH IN 2022, SEK MILLION

	2022	2021
Fund capital at start of year	441 045	386 224
Pension contributions received	81 822	75 597
Pension disbursements	–86 259	–82 889
Administration payments	–252	–236
Net result for the year	–29 244	62 349
Fund capital at year-end	407 112	441 045

ASSET CLASS GROWTH IN THE STRATEGIC PORTFOLIO, EXPOSURE AND RETURN AS AT 31/12/2022 AND 31/12/2021

Asset class	Strategic portfolio, %		Exposure, %		Exposed value, SEK billion		Absolute return, %		Relative return, %		Active risk ex-post*, %	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Swedish equities	9.0	9.0	8.1	9.4	33.0	41.4	–20.6	37.8	2.9	1.0	2.9	2.4
Developed market equities	21.0	22.0	19.2	22.7	78.0	100.1	–5.3	30.5	0.2	0.8	0.9	0.6
Emerging-market equities	10.5	10.5	9.5	9.8	38.7	43.1	–2.8	13.8	–0.2	1.2	0.6	0.4
Swedish fixed-income securities	6.5	6.5	5.5	5.3	22.3	23.3	–7.4	–0.9	0.3	0.0	0.5	0.3
Foreign government bonds	4.0	4.5	3.6	4.3	14.7	18.9	–6.2	2.7	0.1	0.4	0.6	0.3
Foreign credits	9.5	9.5	8.3	9.1	33.6	40.2	–3.5	6.6	0.4	0.0	0.4	0.2
Global green bonds	3.0	3.0	2.6	2.8	10.4	12.3	–10.5	0.7	1.5	–0.3	0.6	0.3
Emerging market fixed-income securities	7.5	7.5	7.1	6.9	28.8	30.6	4.5	0.9	–1.2	–0.4	0.9	0.5
Total listed assets, excl. alternative investments, commission and operating expenses	71.0	72.5	63.7	70.3	259.5	309.9	–11.0	13.2	0.3	0.5	0.5	0.4
Alternative investments	29.0	27.5	36.3	29.7	147.6	131.1	5.1	26.7				
Total Fund capital, excluding commission and operating expenses	100.0	100.0	100.0	100.0	407.1	441.0	–6.6	16.4				

* Historical data, 12 months rolling.

Net result for the year

The result for 2022 was negative, at SEK –29.2 billion. This primarily reflects negative development in the Swedish and foreign equity and fixed-income markets, but with positive performance by unlisted assets. The Fund's investments generated a total return of –6.7 per cent (including expenses).

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 figures in the income statement means that each net income item shows income excluding foreign exchange effects, the translation of income into Swedish kronor, and the impact of the Fund's currency hedging. Both impacts are instead recognised net in the item Net income, foreign exchange gains/losses. Overall, the weakening of the Swedish krona in 2022 had a significant positive impact on reported earnings on assets in foreign currencies. This impact was 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 12 982 (8 378) million for the year.

Net income from listed equities, comprising unrealised and realised gains/losses, totalled SEK –32 470 (27 949) million, including expenses for performance-based fees but excluding foreign-exchange effects. The negative result was the result of a significantly negative return, particularly in Swedish and foreign developed equity markets. The Fund's Swedish equity portfolio and the equity portfolio for foreign developed markets generated a total return of –20.6 and –5.3 per cent respectively, compared with a return of –2.8 per cent for the equity portfolio for emerging markets.

Net income from unlisted equities totalled SEK 549 (21 307) million, and is primarily attributable to the return of 15.4 per cent on timberland and farmland, 17.2 per cent on sustainable infrastructure, and a return of 6.5 per cent on traditional real estate, including currency hedging.

Net income from fixed-income assets totalled SEK –16 953 (–5 123) million.

The Fund's trade in derivatives posted negative net income of SEK –4 613 (–797) million, affected partly by the component of currency forward contracts, attributable in the accounts to derivative instruments. As a consequence of the weakening of the Swedish krona in 2022, the Fund's currency exposure had a positive impact on reported earnings from assets denominated in foreign currency. The Fund's ongoing currency hedging of parts of the portfolio of foreign currency assets had an adverse impact on income. Recognised net income from movements in foreign exchange rates, whereby the positive currency effects on foreign holdings, SEK 35 848 (25 097) million, and the negative impacts of currency hedging, SEK –26 045 (–14 368) million are reported together, stood at SEK 9 803 (10 729) million. See page 78 for more details of the Fund's currency exposure.

Management expenses in the form of performance-based fees, totalling SEK –11 (120) million, were charged to net income from externally managed assets. 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. Performance-based fees for 2022 constituted income as the provisions booked in the 2021 accounts were too high. Commission expenses pertaining to fixed external management fees of SEK 160 (167) 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, which is set out in Notes 3 and 4 on pages 86–87. The Fund's operating expenses and commission expenses, expressed as the management expense ratio, were 0.11 (0.11) per cent for 2022. 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 at a low level. A global cost-efficiency comparison between Andra AP-fonden and other pension funds shows that Andra AP-fonden is highly cost-efficient. Further details about this are provided on page 79.

Operating expenses

Operating expenses amounted to SEK 262 (245) million. Recognised in relation to average Fund capital during the year, 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. In 2022, the Fund capital under external management was mainly active and,

NET RESULT FOR THE YEAR

by year-end, SEK 86 (80) billion was being managed under external mandates, including unlisted assets. This is equivalent to 21 (18) per cent of the Fund's total capital. The cost for external management of market-listed assets partly comprises a fixed element and, for certain services, a performance-based element. In 2022, the fixed cost was SEK160 (167) million and the variable performance-based element was SEK –11 (120) million. Performance-based fees for 2022 constituted income as the provisions booked in the 2021 accounts were too high. Fixed external management fees for the year decreased due to the lower market value of the capital under external management.

Custodial expenses

Andra AP-fonden carries out much of its asset management activities in-house. This drives the level of custodial expenses. These expenses are also affected by the type of asset deposited with a custodial bank. Assets exposed to emerging markets, for example, are relatively expensive to place on deposit. Custodial expenses amounted to SEK 41 (41) million in 2022.

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 in Net income for listed equities and participations. See Note 2 on page 86. Brokerage commission paid in 2022 totalled SEK 83 (88) million. Commission paid to the Fund's external managers accounted for 10 (17) per cent

CONTRIBUTION TO RELATIVE RETURN, %

Asset class	2022	2021
Swedish equities	0.44	0.12
Developed market equities	0.06	0.22
Emerging-market equities	0.00	0.17
Swedish fixed-income securities	0.02	0.00
Foreign government bonds	0.00	0.03
Foreign credits	0.06	0.01
Global green bonds	0.06	-0.02
Emerging market fixed-income securities	-0.12	-0.03
Absolute return	-0.08	0.06
Total market-listed assets excl. alternative investments and implementation effects	0.46	0.56
Implementation effects*	-0.15	-0.07
Total market-listed assets excl. alternative investments and incl. implementation effects	0.31	0.50

*Effects on income to maintain exposure to strategic portfolio.

CONTRIBUTION TO ABSOLUTE RETURN, %

Asset class	2022	2021
Swedish equities	-2.0	3.2
Developed market equities	-1.2	6.4
Emerging-market equities	-0.3	1.5
Swedish fixed-income securities	-0.4	-0.1
Foreign government bonds	-0.2	0.1
Foreign credits	-0.3	0.7
Global green bonds	-0.3	0.0
Emerging market fixed-income securities	0.3	0.1
Absolute return	-0.1	0.0
Semi-strategic allocation	-0.3	-0.4
Overlay	0.0	-0.1
Currency hedging, listed portfolio	-3.3	-2.3
Alternative investments	3.5	8.4
Currency hedging, alternative investments	-2.0	-1.2
Total assets, excl. commission and operating expenses*	-6.6	16.4

*Including currency hedging.

of the brokerage costs, while 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 counterparties (listed in alphabetical order) received 41 per cent of total brokerage fees: Citibank, D. Carnegie & CO, Goldman Sachs, JP Morgan and UBS.

Portfolio return

The total portfolio return in 2022 was –6.6 per cent, excluding commission expenses and operating expenses but including performance-based fees.

Listed equities performed negatively, particularly in Sweden and other developed economies. 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 –11.0 per cent, including currency hedging. Foreign equities in developed markets returned –5.3 per cent in Swedish kronor, excluding currency hedging effects. Swedish equities returned –20.6 per cent, and emerging markets equities, excluding Chinese equities, which are reported under alternative investments, returned –2.8 per cent.

Swedish fixed-income securities generated a negative return of –7.4 per cent. The returns on foreign government bonds and credits were –6.2 per cent and –3.5 per cent respectively, in Swedish kronor, excluding currency hedging. Global green bonds decreased by 10.5 per cent, also in Swedish kronor and excluding currency hedging effects. The 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. Emerging market fixed-income securities increased in value by 4.5 per cent in Swedish kronor. This asset class is partly currency hedged.

Alternative investments – real estate, private equity funds, sustainable infrastructure, private debt, alternative risk premiums and Chinese A-shares – generated a return of 5.1 per cent, including currency hedging. The allocation to Chinese government bonds was ended in 2022.

The contribution made by the various asset classes to the total result 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 –1.2 per cent. Swedish equities contributed –2.0 per cent and emerging-market equities –0.3 per cent. Swedish fixed-income securities contributed –0.4 per cent and green bonds contributed –0.3 per cent. Absolute return mandates' contributions were very small. Foreign government bonds contributed –0.2 per cent, while foreign credits contributed –0.3 per cent. Emerging market fixed-income securities were the only listed asset

class to make a positive contribution, at 0.3 per cent. The contributions are recognised excluding the effects of currency hedging. Alternative investments contributed 1.5 per cent, including currency hedging.

The AP Funds have a 40 per cent statutory limit for currency exposure. Andra AP-fonden's currency hedging policy aims to reduce the risk in the portfolio. The Fund therefore implements a systematic hedging programme for the currencies of developed countries, with a view to minimising variation in the value of the portfolio in the long term. The weakening of the Swedish krona resulted in a negative –3.3 per cent contribution from 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 6.5 per cent. The portfolio of timberland and farmland real estate returned 15.4 per cent. The private equity portfolio produced a return of 3.6 per cent for the year. Alternative risk premiums delivered a return of –4.6 per cent. The portfolio of unlisted credits is under development and its return was 3.6 per cent. The management of sustainable infrastructure assets is also under development, but has come slightly further. The return in 2022 was 17.2 per cent. These returns are recognised including currency hedging.

The Fund has invested in equities in the domestic Chinese market, known as 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 –16.1 per cent. The Fund also has had an allocation to Chinese government bonds, which, as with equities, were classified as alternative investments, but these were divested shortly before the end of June 2022.

Andra AP-fonden has generated an annual average return of 5.2 and 7.4 per cent over the past five and ten years, respectively. Minus inflation, this is equivalent to an annual real return of 1.1 per cent over five years and 5.0 per cent over ten years. Over a period of ten years the portfolio has thus exceeded the Fund's expected return of 4.5 per cent (including costs). The expected return is based on expected annual inflation of 2 per cent.



Relative performance 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 2022, the listed portfolio had a return of -11.0 per cent, in Swedish kronor including currency hedging. The active return for the year was 0.46 per cent. Total relative return, i.e. active return including implementation effects (costs arising in connection with rebalancing and transactions not attributable to active management) was 0.31 per cent. Implementation effects reduced the relative return by 0.15 per cent. For administrative reasons, this calculation does not take into account active return from the Chinese equity mandates. The semi-strategic portfolio contributed -0.32 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 -0.13 per cent this year.

In the last five years, the Fund's active return has averaged 0.05 per cent per year. Over the same period, implementation effects have averaged -0.09 per cent. The average relative return has thus been -0.05 per cent. In the last five years, the relative return plus semi-strategic positions and active Chinese return have been -0.01 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 2.9 per cent. The portfolio of fundamentally managed equities exceeded the benchmark index by 4.1 per cent. The small cap portfolio outperformed the benchmark index by 0.4 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 0.2 per cent. The active result for equities in emerging markets was -0.2 per cent. The management of Chinese A-shares was conducted with major deviation mandates and has delivered a very high active return over time. The active return for the year was 0.8 per cent.

Swedish and foreign fixed-income assets

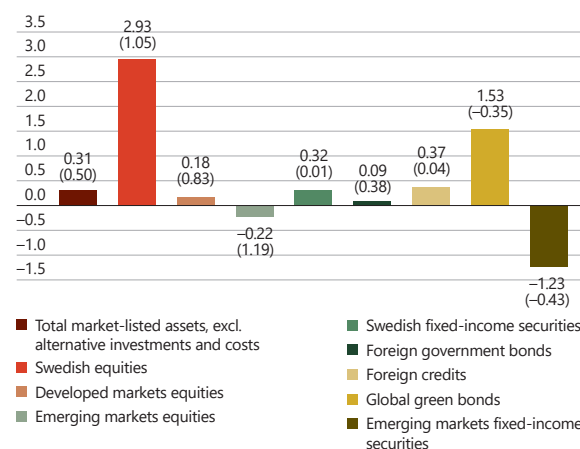
The Swedish fixed-income management's active return was 0.3 per cent. The portfolio of foreign government securities, managed in-house, had an active return of 0.1 per cent. The in-house management of credit bonds outperformed the benchmark index by 0.4 per cent.

The management of emerging-market bonds, issued in US dollars, achieved an active return of -1.9 per cent during the year. The management of emerging-market bonds in local currency generated an active return of -1.0 per cent. The management of global green bonds had an active return of 1.5 per cent during the year.

Other contributions

The Fund's in-house tactical allocation activities delivered a negative result of -SEK 264 million, attributable mainly to trade in equity forwards. 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. Equity loans and currency trading contributed SEK 24 million.

RELATIVE RETURN PER ASSET CLASS IN 2022 (2021), %



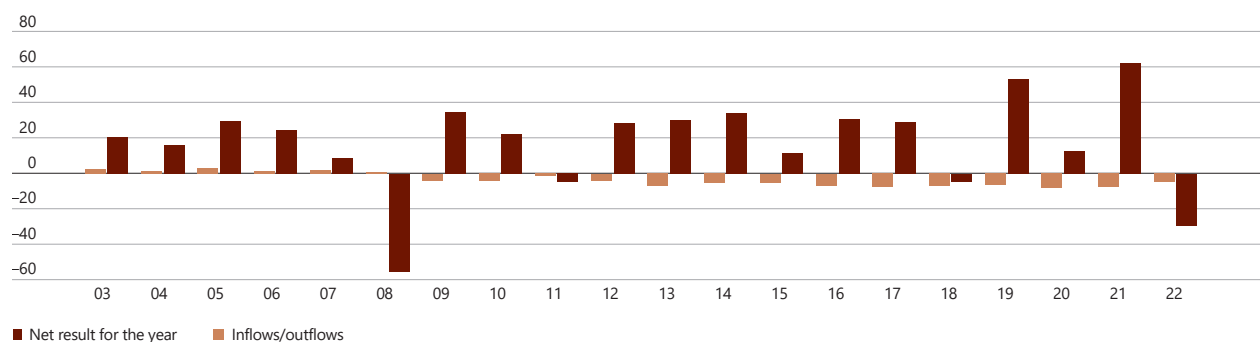
RELATIVE PERFORMANCE OF THE LISTED PORTFOLIO

OVERVIEW 10 YEARS

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Fund capital, SEK billion	407.1	441.0	386.2	381.3	334.8	345.9	324.5	300.6	293.9	264.7
Net outflows to national pension system, SEK billion	-4.7	-7.5	-7.9	-6.5	-6.8	-7.4	-6.6	-4.9	-5.1	-6.9
Net result for the year, SEK billion	-29.2	62.3	12.8	53.0	-4.3	28.8	30.5	11.7	34.3	30.1
Return on total portfolio before commission and operating expenses, %	-6.6	16.4	3.7	16.1	-1.2	9.1	10.5	4.1	13.3	12.8
Return on total portfolio after expenses, %	-6.7	16.3	3.5	15.9	-1.3	9.0	10.3	4.0	13.1	12.7
Relative return on listed assets, excl. alternative investments, and commission and operating expenses, % ¹	0.3	0.5	0.0	-0.9	-0.2	0.1	-0.4	0.9	0.5	0.4
Active risk ex-post, %	0.5	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3
Currency exposure, %	23	34	34	34	32	33	31	30	24	23
Management expense ratio, excl. commission expenses, %	0.06	0.06	0.06	0.07	0.06	0.06	0.07	0.07	0.07	0.07
Management expense ratio, incl. commission expenses, %	0.11	0.11	0.14	0.15	0.14	0.15	0.15	0.18	0.17	0.17
Annualised return after operating expenses, 5.0 years, %	5.2	8.5	7.3	7.4	6.9	9.8	10.6	8.0	9.4	10.8
Annualised return after expenses, 10.0 years, %	7.4	9.5	7.7	8.4	8.8	6.0	5.5	5.7	7.1	7.0

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

THE FUND'S PERFORMANCE AND FLOWS 2003–2022, SEK BILLION



During the Fund's lifetime, the markets have been through several severe crises; first the dot-com bubble when the Fund started, and then the financial crisis which culminated in 2008. In 2011, the financial markets were affected significantly by debt

crises in different parts of the world. The stock markets then returned to good performance for a number of years, with the exception of 2018. In 2022, the financial markets were impacted by the war in Ukraine and the sharp rise in inflation.

Performance of alternative investments

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

The alternative investment portfolio is continuing to generate a good return, amounting to 11.8 per cent for the year (5.1 per cent with currency hedging earnings included). This was despite the negative market development in 2022. The long-term investment

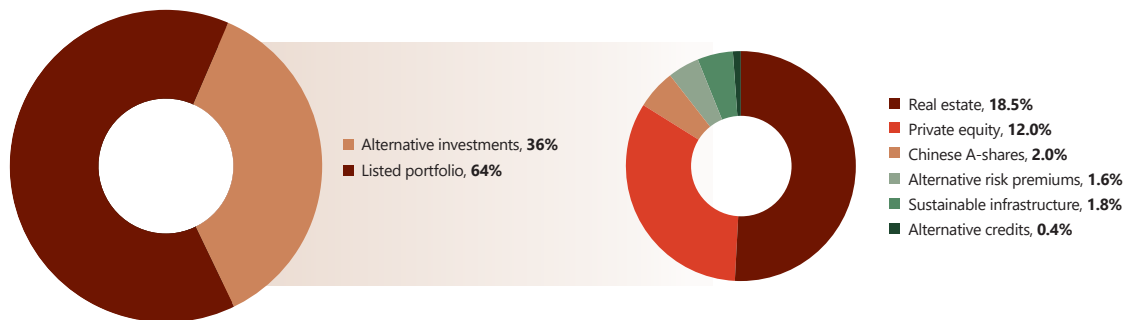
selection and a significant weakening of the Swedish krona in 2022 were contributory factors.

Over time, long-term, focused efforts have created the ability to generate and pick attractive investment opportunities across the various alternative asset classes. For example, the sustainable infrastructure asset class, which was only established three years ago, performed very well and the investments made have appreciated much more quickly than the Fund initially expected. The long-term investments in timberland and farmland also generated an excellent return in 2022. Unlisted traditional real estate holdings are demonstrating stability, although there is a considerable difference in growth in value depending on geographic location. A well-diversi-

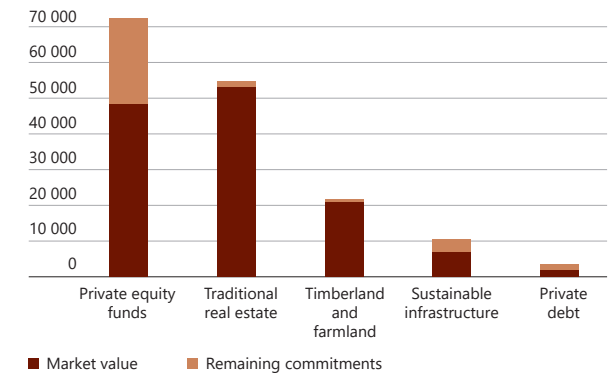
fied portfolio of investments in private equity funds, which generated a very high return in 2021, showed stability in 2022 and saw a return in line with expectations. Investments in private debt began two years ago and it is too soon to assess, but investment opportunities were good in 2022. Like almost all other listed stock exchanges, equity investments in the local Chinese stock market generated a negative return in 2022.

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 full, while assets in emerging countries are not hedged.

ALTERNATIVE INVESTMENTS' SHARE OF THE TOTAL PORTFOLIO AND ITS COMPONENTS, %



UNLISTED INVESTMENTS BY MARKET VALUE AND REMAINING COMMITMENTS, SEK MILLION



PERFORMANCE OF ALTERNATIVE INVESTMENTS

Private equity funds

In 2022, the return on private equity funds was 9.7 per cent (3.6 per cent including currency hedging). The portfolio's market value was SEK 48.2 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 equity market. The long-term strategy of a selective choice of funds is a crucial factor in the level of return achieved.

In 2022, the total investment commitments of the private equity portfolio, excluding liquidated investments, amounted to SEK 78 billion.

Since inception in 2001, SEK 55.5 billion (including management fees) has been invested, of which SEK 51.0 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 2022, SEK 7.8 billion was invested and SEK 5.5 billion was repaid, resulting in a net inflow of SEK 2.3 billion. Andra AP-fonden carried out 20 new investments during the year. The total commitment for these was equivalent to SEK 8.0 billion. These new investment commitments include allocations to Andreessen

Horowitz, Audax, Baring Asia, CD&R, DCVC, Francisco Partners, H.I.G., NEA, Sequoia, TCV, Thoma Bravo and TowerBrook.

The exposure to North America was 58 per cent, Europe 21 per cent, Asia 19 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 14 per cent.

Per investment style, buyout and growth funds have the highest share at 60 per cent, followed by venture funds at 31 per cent, and special situation and problem companies at 9 per cent.

Management fees paid for unlisted assets are recognised as a component of the initial cost of the assets. For more details, see the Fund's accounting and valuation principles on pages 84–85.

Traditional real estate

The Fund's unlisted real-estate holdings currently 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 of interest 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 diversification in the total portfolio.

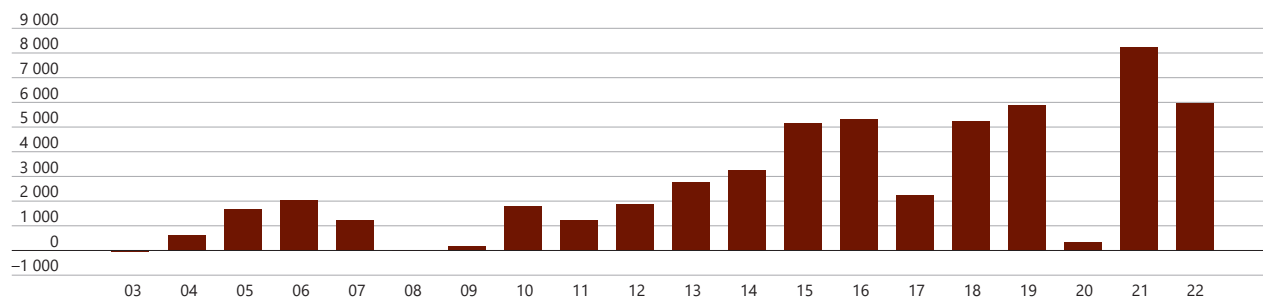
Vasakronan is owned jointly by the First, Second, Third and Fourth AP Funds. It is Sweden's largest real-estate company with a market value of just over SEK 188 billion and has a concentrated portfolio of attractively located real-estate holdings in the Stockholm, Gothenburg, Öresund and Uppsala regions. Cityhold Office Partnership is a joint venture with Första AP-fonden, TIAA and GPIF. The real-estate portfolio is valued at approximately EUR 3.6 billion and comprises high-quality office buildings in attractive locations in London, Paris, Munich, Berlin, 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, as well as housing and life sciences projects, both directly and via joint ownership. Three properties were sold in 2022. The market value of Andra AP-fonden's real-estate holdings is approximately USD 2.4 billion.

Since 2013, Andra AP-fonden has invested 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 the 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

PORTFOLIO GROWTH, REAL-ESTATE

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



PERFORMANCE OF ALTERNATIVE INVESTMENTS

estate during the year was 12.3 per cent (6.5 per cent including currency hedging).

Sustainable infrastructure

Andra AP-fonden has had a sustainable infrastructure portfolio since 2020. 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, and without compromising return expectations. Generation of renewable energy is to be the main investment focus, although the portfolio may also include investments in battery production plants, power line networks, expansion of hydrogen infrastructure, and so on.

Since the launch of the portfolio, seven 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 small-scale 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. Copenhagen Infrastructure Advanced Bioenergy Fund, which focuses on the production of bio-energy (biogas and biofuel) by processing waste products from forestry, farming and food production in different ways. The waste used must be approved according to the EU's RED II (Renewable Energy Directives). Blackrock's Climate Finance 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 26.3 per cent (17.2 per cent including currency hedging).

Timberland and farmland

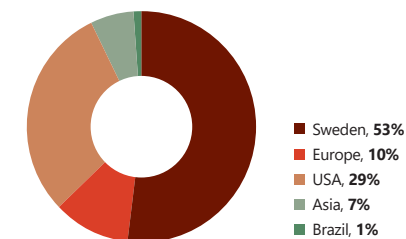
In 2010, Andra AP-fonden made its first investments in timberland and farmland real estate as part of its strategy to diversify the overall portfolio. With growing demand for forest and agricultural products driven by increasing urbanisation, improvements in welfare and an expanding population, these 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 12 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 is 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.

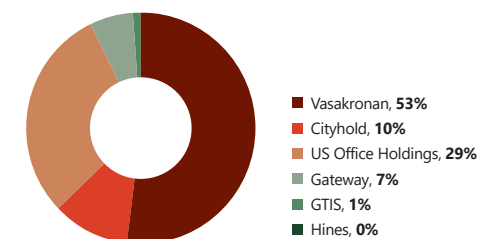
Andra AP-fonden's timberland investments are located mainly in the USA and Australia. They focus on conventional forestry systems for traditional pulpwood and saw timber, with a careful balance between softwood and hardwood. The majority of these investments are structured as funds. Funds and companies 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 28–30 in the Fund's separate Sustainability Report, www.ap2.se

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



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



In 2022, the Fund's return on investments in farmland was 26.6 per cent (15.9 per cent including currency hedging). The return on investments in timberland was 28.0 per cent (14.5 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

PERFORMANCE OF ALTERNATIVE INVESTMENTS

made in secured corporate credits, but other types of private debt may also be considered for the purpose of diversifying the portfolio.

Development of the portfolio continued in 2022 and the performance of the Fund's investments are largely as expected. Due to the short period of time that the Fund has invested in this asset class, a detailed statement of performance is not yet meaningful.

Alternative risk premiums

The aim of alternative risk premiums is for the portfolio to help improve the diversification and generate higher risk-adjusted return, since the portfolio is designed to be less dependent on traditional equity market risk. In 2022, the portfolio consisted of premiums for reinsuring insurance companies and premiums associated with the markets for corporate acquisitions and convertible instruments. All mandates in this area have been managed externally. The return for 2022 was 11.4 per cent (–4.6 per cent including currency hedging).

The negative result of the portfolio, including currency hedging, was mainly due to turbulent financial markets, combined with Hurricane Ian, which hit Florida in September and had a significantly negative impact on the insurance sector.

Chinese A-shares

Andra AP-fonden has been investing in the market for Chinese A-shares since 2013. In the strategic portfolio, 2 per cent of the capital has been allocated to Chinese A-shares. The three external investment managers for the portfolio were: APS, Cephei and UBS. An exposure to the structural trends affecting the market has been sought and asset management has been conducted with relatively high deviation from the Chinese benchmark index, MSCI China A¹. The index is considered ineffective and is marked by high volatility, so a high deviation in relative terms can be expected.

In 2022, the benchmark index fell by 16.9 per cent in Swedish kronor. Andra AP-fonden's managers outperformed the benchmark somewhat, with an absolute return for the portfolio of –16.1 per cent.

During 2022, the Fund took the decision to no longer be invested in Chinese A-shares, so these will be divested in 2023.

¹ Adjusted index.



Internal governance and control

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

Control environment	<ul style="list-style-type: none"> • Integrity and culture • Independence and monitoring • Responsibilities and authorities • Duality • Leadership and values
Risk assessment	<ul style="list-style-type: none"> • Set relevant operational and return targets • Define risk framework • Identify, analyse and manage risks • Identify and manage change
Control activities	<ul style="list-style-type: none"> • Identify and create control activities • Identify and create general IT controls • Spread knowledge through policies and guidelines
Information and communication	<ul style="list-style-type: none"> • Use relevant information • Structures and procedures for internal and external communication
Monitoring and evaluation	<ul style="list-style-type: none"> • Conduct regular and separate evaluations • Identify, evaluate and communicate non-conformances

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

It is essential for a business that carries out asset management activities to focus on financial risks, and risk-taking is a natural and necessary way to achieve the expected return. A well-structured internal governance and control system for an asset management organisation helps it achieve its objectives by taking desired 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, and this has laid the foundation for a strong approach to control and risk throughout 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 the 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 ultimate responsibility for the Fund's internal control activities and its control environment. Its role is to provide guidance and give the control environment the required attention. In 2016, as part of these efforts, the Board decided to introduce an external independent audit function with annual internal audit assignments determined by the Board. The First, Second, Third and Fourth AP Funds have had the same internal audit provider, appointed through joint procurement, since 2020.

The CEO has overall operating responsibility for the Fund's internal control and, in that role, determines the vital internal culture of risk awareness, integrity, ethics and morals that provide the foundation for a strong, positive control environment. 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.

INTERNAL GOVERNANCE AND CONTROL

Some key factors in the control environment

Culture

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

The Fund uses the "Three Lines of Defence" model as a structured process to ensure that its risk management and control systems are effective. 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.

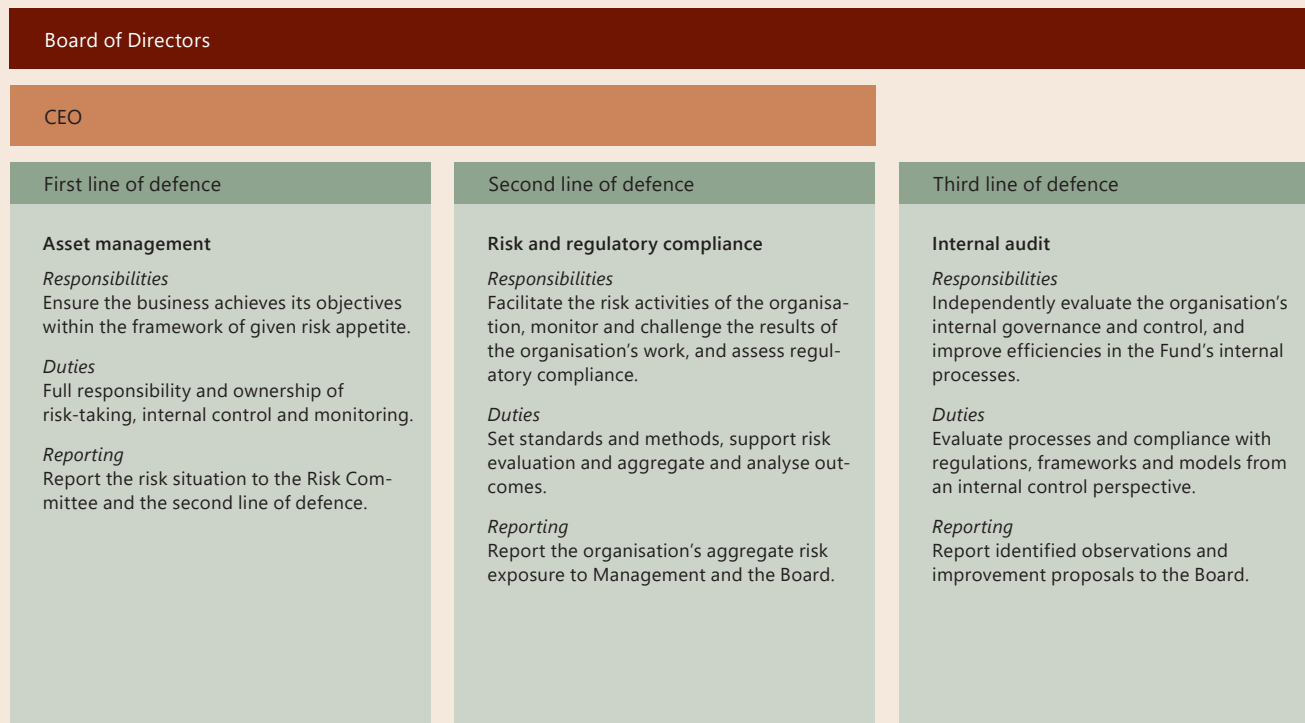
Monitoring and reporting

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. Find out more on page 74.

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

The Fund's internal governance and control in a number of processes are also subject to annual scrutiny as part of the external audit work. In addition, the Fund's Compliance Department regularly presents the Audit Committee and the entire Board with a report on identified areas of regulation with associated risks, and any regulatory breaches. The reviews carried out by the internal audit function are reported to the Board, have different focal 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 Governance Report.



Portfolio risk in 2022

The Swedish Parliament has formulated clear guiding principles as to how the AP Funds should interpret their mandate as fund managers. The AP Funds should approach 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 clarified the Fund's goal for its asset management activities so that the consequences for future pensions of activating the automatic balancing mechanism are minimised. This is the primary risk that affects the shaping of the investment strategy rather than the selected portfolio's risk profile. The vast majority of the 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 level of financial risk is thus directly linked to the Fund's assessment of the development of the total pension system over the coming decades. This is determined largely by demographics,

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 AP Funds need to take 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 higher-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 capital across various assets and strategies. It can also be described in terms of expected future returns. A third description is the portfolio's expected risk profile, which is key to achieving the overall goal to minimise the risk of lower pensions in the future, which is the mission that the AP Funds have been tasked to focus on.

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 risk exposure. 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 generate 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 in asset management 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 targets and funds for each asset management mandate. The targets and risk frameworks of each mandate are described in its Investment Guideline. The risk budget is drawn up annually. Senior portfolio managers present their proposal to the Fund's Executive Management for approval.

Compliance

Compliance is responsible for ensuring that legal and ethical aspects are managed correctly and in compliance with current

PORTFOLIO RISK

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 internal 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, such as flagging. Internal rules govern employees' personal securities transactions and how external fund managers comply with the terms of their contracts.

Risk Management

Risk Management is responsible for the control and analysis of 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.

One example of a sustainability risk that affects financial risk is fossil fuel reserves. The risk means that the assets may be abandoned 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. The most common sustainability risk factor under operational risks is reputational risk, i.e. the risk of the investment operations causing a loss of confidence in the organisation or the pension system.

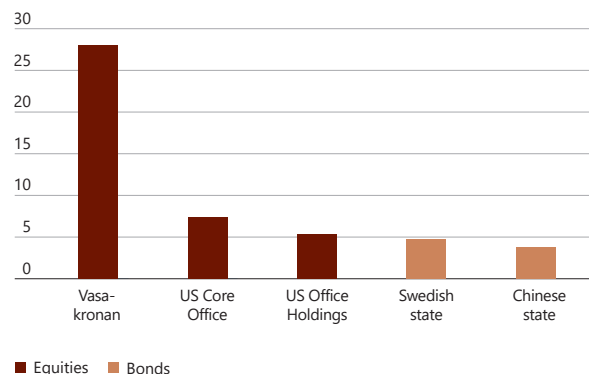
As well as the grouping of risks into financial and operational risks, there is also the risk that an investment might cause harm to human life or the environment, without necessarily having any impact on financial or operational risks. These risks can be categor-

ised 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.

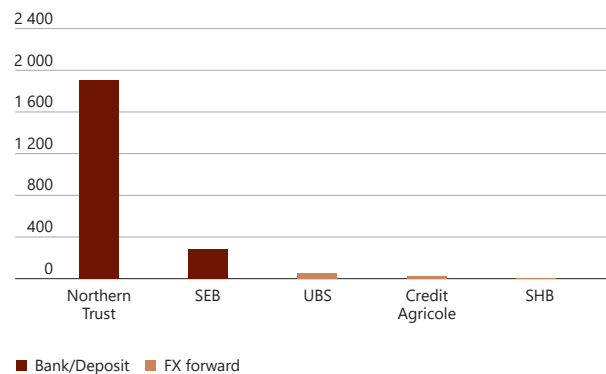
Market risk

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 identify the risk-taking in different parts of the portfolio. Furthermore, the Fund conducts

EXPOSURE TO ISSUERS, SEK BILLION



COUNTERPARTY RISK, SEK MILLION



FIXED-INCOME PORTFOLIO DURATION IN 2022



PORTFOLIO RISK

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 credit commitment not being fulfilled. The credit risk comprises:

- Counterparty risk – the risk of a counterparty in an OTC/deposit transaction becoming insolvent and unable to fulfil its obligations.
- Issuer risk – the risk of an issuer becoming insolvent and unable to fulfil its obligations.
- Settlement risk – the risk of the counterparty being 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 on 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 established 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 by credit rating. The Fund uses median ratings from credit rating agencies Standard & Poor's, Moody's and Fitch Ratings to assess 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 risk in fixed-income funds and unlisted assets (alternative credit funds).

Counterparty risk is monitored and analysed on a daily basis. A credit assessment 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 for this. As well as the counterparty risk associated with deposits and over-the-counter (OTC) derivatives, there is a risk in respect of clearing institutes concerning cleared transactions, 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 the cancellation of payments. 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 concentration risk by analysing the geographic and sector allocation, as well as the allocation per issuer and issuer group. The most influential factor in managing concentration risk is the choice of benchmark index.

Liquidity risk

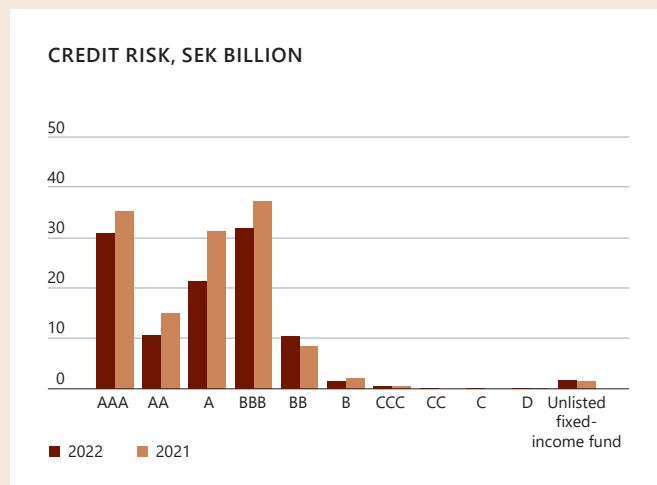
Liquidity risk is the risk that a security cannot be sold in a timely manner without incurring a considerable loss or cost. The AP Funds must also be prepared to transfer funds to the Swedish Pensions Agency. The Fund's liquidity risk is restricted by the National Pension Insurance Funds Act, which requires that at least 20 per cent of the Fund's assets be placed in debt instruments 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 logs, process analysis and workshops. The operational risks are analysed based on an assessment of their likelihood and impact. The analysis forms a basis for prioritising risks and an action plan is created for the largest risks. Process mapping is one of the tools used to identify operational risks. A process organisation with a process sponsor, sub-process owner, process manager, process team and process support has been appointed and there is a structure for follow-up with a joint meeting once a year. Procedures are in place for the continuous development of the processes and the relevant risks/controls, and to ensure that operations are conducted in compliance with the established 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, increased during the year as a result of a turbulent operating environment and market fluctuations, and at year-end stood at 8.2 per cent.



PORTFOLIO RISK

Andra AP-fonden reports an increased active risk ex-post for the total listed portfolio for 2022. As at 31 December 2022, active ex-post risk stood at 0.47 (0.38) per cent. For the Swedish equities asset class, active risk rose from 2.4 per cent to 2.9 per cent. Emerging market fixed-income securities increased from 0.5 per cent to 0.9 per cent. Other asset classes had only minor changes during the year. Covariance between the relative returns and between the asset classes in the listed portfolio remained low over the year, indicating a good diversification of active risk in the Fund's portfolio.

Calculated for the 12 months, the information ratio for the listed portfolio was 0.7 at year-end. Due to a decline in absolute return, the Sharpe ratio for the Fund's listed portfolio decreased during the year, and was negative at 31 December.

At 31 December, the fixed-income portfolio duration was 5.6 (6.4) years, representing a decrease of approximately 0.8 years on the previous year. The decrease was mainly attributable to the asset classes foreign credits, green bonds and emerging market fixed-income securities. 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 28 (27) per cent rated AAA, 10

(11) per cent AA, 20 (24) per cent A, and 29 (28) per cent BBB.

For the currency-hedged asset classes, alternative asset classes are calculated to have the highest absolute ex-ante volatility (see chart on page 77, Ex-ante Volatility and Correlation to Total Portfolio by 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 over time. The equity risk has been higher than expected in recent years. The risk decreased in 2021, but in 2022 it returned to levels well above the expected 10–13 per cent.

In order to calculate weighted risk contribution, the correlation of the different asset classes with the Fund's total portfolio risk also has to be estimated. Equity asset classes are expected to have a high correlation with the Fund's total portfolio, 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. As a result of the market turmoil of recent years, the correlation between alternative asset classes and the Fund's total portfolio has approached the correlation between equity asset classes and the Fund's total portfolio.

RISK CALCULATED AS VALUE-AT-RISK (VaR) FOR ANDRA AP-FONDEN'S TOTAL PORTFOLIO, 2022

SEK million	Contribution to ex-ante VaR (95%, 1 day)	Contribution to ex-ante volatility (1 year)	Percentage risk (%)	Percentage market value (%)
Equities	2 470	23 792	49	37
Fixed-income securities	211	2 033	4	27
Currency risk	–91	–876	–2	0
Alternative investments	2 430	23 406	48	36
Total AP2	5 021	48 355	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.



PORTFOLIO RISK



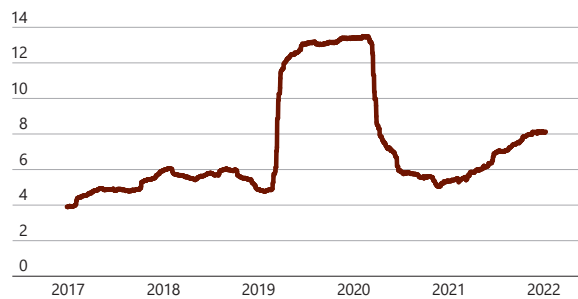
The Fund's total ex-ante volatility is estimated to be 11.9 per cent over the course of a year. The asset classes that primarily contribute risk are those with high volatility and large allocations, which means they correlate well with the Fund's total portfolio (see chart on page 77, Contributions to Ex-ante Volatility Per Asset Class And Change). Although alternative asset classes have high absolute risk, they usually contribute proportionately with slightly less risk than equities due to better diversification of the Fund's total risk (see paragraph above). Traditional real estate and private equity funds are the asset classes that carry the most risk after listed equities. The risk contributions from all fixed-income mandates are low.

Estimated volatility increased by approximately 1.2 percentage points during the year. The main reason for the higher projected volatility is because exposure to alternative asset classes has increased as their valuation is not affected in the same way by declining equity markets and rising interest rates as the listed portfolio.

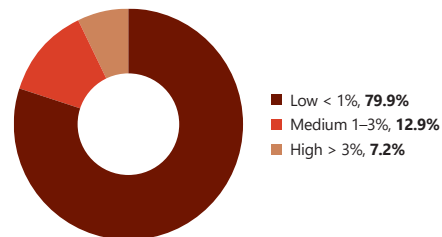
The listed portfolio's active ex-ante risk is estimated to be 0.39 per cent (see chart on page 77, Contributions to Listed Portfolio Ex-ante Active Risk). The currency risk element in active risk is negligible. Swedish equities contribute most to active risk, the bulk of which comprises idiosyncratic risk.

The Fund's one-day 95 per cent VaR (Value at Risk) is estimated to be approximately SEK 5.0 billion (see table on page 75). In other words, with an assumed probability, the Fund is expected to lose a maximum of SEK 5.0 billion a day per month. The Fund's annual volatility is estimated to be approximately SEK 48.4 billion. The Fund thus estimates that with standard deviation probability, next year's results will be between plus/minus SEK 48.4 billion, provided that the positions from year-end do not change.

VOLATILITY OF THE LISTED PORTFOLIO DURING THE LAST FIVE YEARS, %

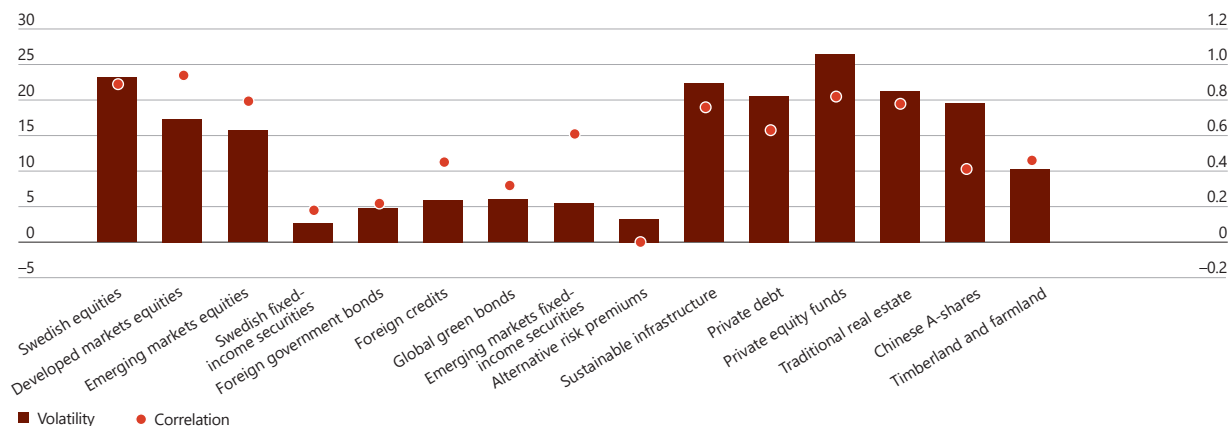


ALLOCATION OF ACTIVE RISK, %



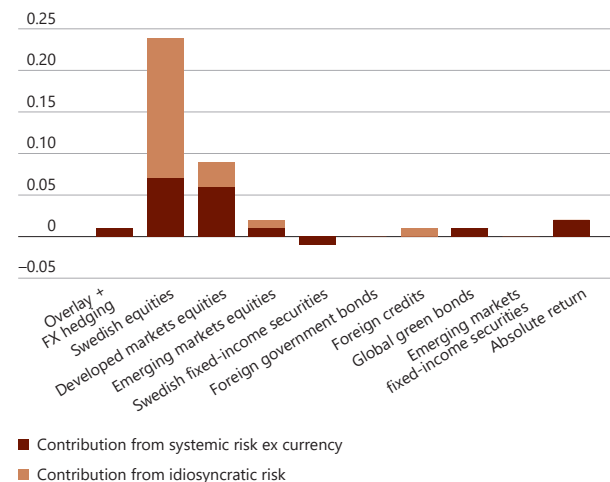
PORTFOLIO RISK

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

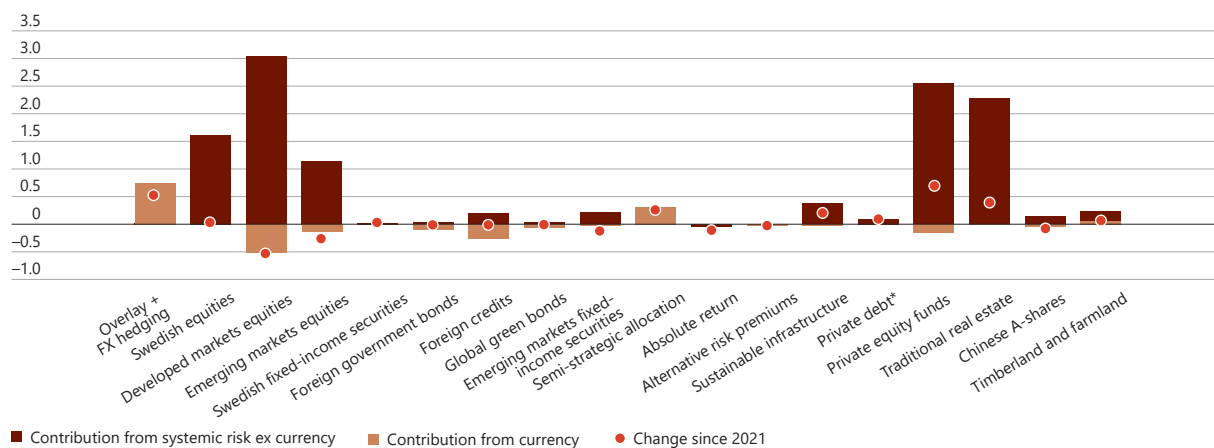


* Private debt is a new asset class under development.

CONTRIBUTION TO LISTED PORTFOLIO EX-ANTE ACTIVE RISK, %



CONTRIBUTION TO EX-ANTE VOLATILITY BY ASSET CLASS AND CHANGE, %



* Private debt is a new asset class under development.

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, 23 (34) per cent of the Fund's portfolio was exposed to foreign currency. The largest of these 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 reduce risks in the portfolio and a systematic currency hedging programme is actively implemented. The portfolio's total currency exposure in 2022 had a positive impact on result, due to the net weakening of the Swedish

krona against other currencies. The currency hedging programme had a negative impact on result. A total of SEK 9.8 (10.7) billion in foreign-exchange gains was recognised for the Fund's total portfolio exposed to foreign currency, including currency hedging.

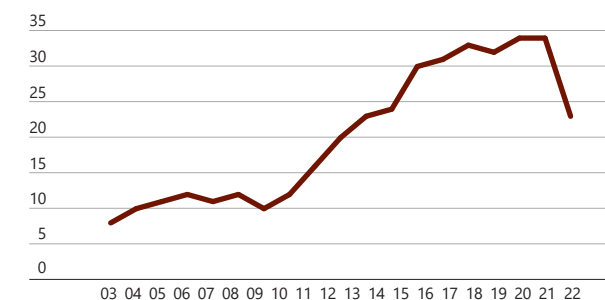
CURRENCY EXPOSURE IN 2022 AND 2021, EQUIVALENTS IN SEK MILLION

31/12/2022	USD	CNY	EUR	INR	JPY	BRL	Other	Total
Equities and participations	126 156	7 973	26 925	4 874	7 851	2 463	44 977	221 219
Bonds and other fixed-income securities	41 213	1	22 169	–	3 312	2 994	22 305	91 994
Other assets and liabilities, net	873	302	359	1 723	63	392	735	4 447
Derivatives excl. foreign exchange derivatives	–6	–	–	–	–	–	–	–6
Foreign exchange derivatives	–146 789	–	–41 874	–21	–4 840	–52	–29 696	–223 272
Currency exposure, net	21 447	8 276	7 579	6 576	6 386	5 797	38 321	94 382

31/12/2021	USD	CNY	EUR	HKD	INR	JPY	Other	Total
Equities and participations	127 460	9 368	26 620	10 214	6 561	9 656	44 209	234 088
Bonds and other fixed-income securities	46 683	4 641	27 586	–	0	4 451	27 716	111 077
Other assets and liabilities, net	–223	525	956	69	1 726	45	1 586	4 684
Derivatives excl. foreign exchange derivatives	55	–	1	–	–	–	–56	0
Foreign exchange derivatives	–124 871	–	–42 676	–115	–35	–6 156	–26 622	–200 475
Currency exposure, net	49 104	14 534	12 487	10 168	8 252	7 996	46 833	149 374

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

CURRENCY EXPOSURE, GROWTH SINCE INCEPTION, %



— Currency exposure Andra AP-fonden

The statutory limit for currency exposure is 40 per cent.

More asset management is taking place in-house, which is helping reduce costs

Andra AP-fonden works extensively on cost efficiency and takes an overall view of all processes from a cost perspective. During the budget process, each person 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. In 2022, the Fund reduced costs significantly by ending a number of external mandates. The management expense ratio for 2022, including commission expenses, was unchanged from the previous year, at 0.11 per cent. The management expense ratio, excluding commission expenses, was also unchanged at 0.06 per cent.

Transaction costs are the cost associated with the implementation of each individual transaction, regardless of whether it concerns listed or unlisted assets. In asset classes with a high volume of transactions, the challenge is to trade in a cost-effective manner. The Fund's design of its own benchmark indices is an example of a proactive approach to keep costs down.

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 in-house

where possible and where this is considered cost-effective. In 2022, the decision was taken to close a number of external mandates, which means that Andra AP-fonden can expect a clear reduction in costs going forward.

Implementation effects and rebalancing

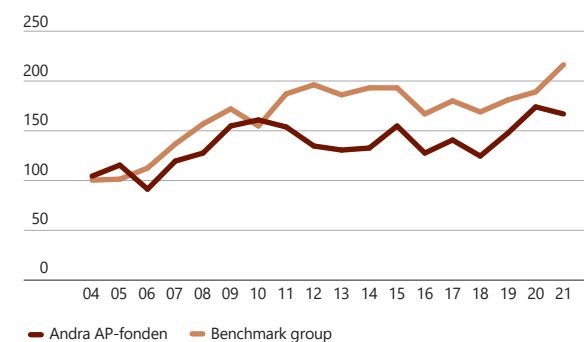
The fact that the capital market is occasionally subject to a high degree of volatility places particular demands on flexibility to enable adjustments to mandates and investment focus. The Fund's capital must be exposed to the markets in an efficient manner, as per the strategic portfolio, and rebalanced during major market fluctuations. This requires a well-developed methodology and a high level of expertise.

Andra AP-fonden employs a floating strategic benchmark index and the actual portfolio is adjusted daily to replicate this. The costs and revenues attributable to strategic changes in the benchmark index, known as transitions, and the ongoing rebalancing of the strategic portfolio are referred to as implementation effects. In 2022, implementation effects amounted to -0.15 (-0.07) 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

EFFICIENCY COMPARISON WITH INTERNATIONAL PENSION FUNDS 2004–2021, INDEXING



The CEM study shows Andra AP-fonden's cost level in relation to the comparison group for the period 2004–2021.
Source: CEM

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.

Andra AP-fonden has been taking part in CEM's annual comparison study since 2004. According to the latest analysis, for 2021, Andra AP-fonden continues to carry out its asset management

EXPENSES

duties in a successful and cost-effective way. The Fund's cost level is still lower than that of the benchmark group by a significant margin. This can mainly be attributed to cost-effective internal management and less use of external management.

VAT

The AP Funds have been registered for VAT since 2012 and are thus liable to pay VAT on acquisitions from outside Sweden. Since the Funds do not have the right to reclaim the VAT paid, the VAT registration has resulted in a direct increase in the Fund's costs. In 2022, the costs for Swedish VAT on services acquired from outside Sweden totalled SEK 30 (29) million.

Collaboration with other AP Funds

The AP Funds' (AP1–AP4 and AP7) Collaboration Council was established to create better and more effective cooperation in areas outside the investment activities or in those cases where competition between the AP Funds is put 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.

Role of the Collaboration Council

The Collaboration Council is the collective body whose overall role is to ensure collaboration 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 methodology, 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
- Systems Management.

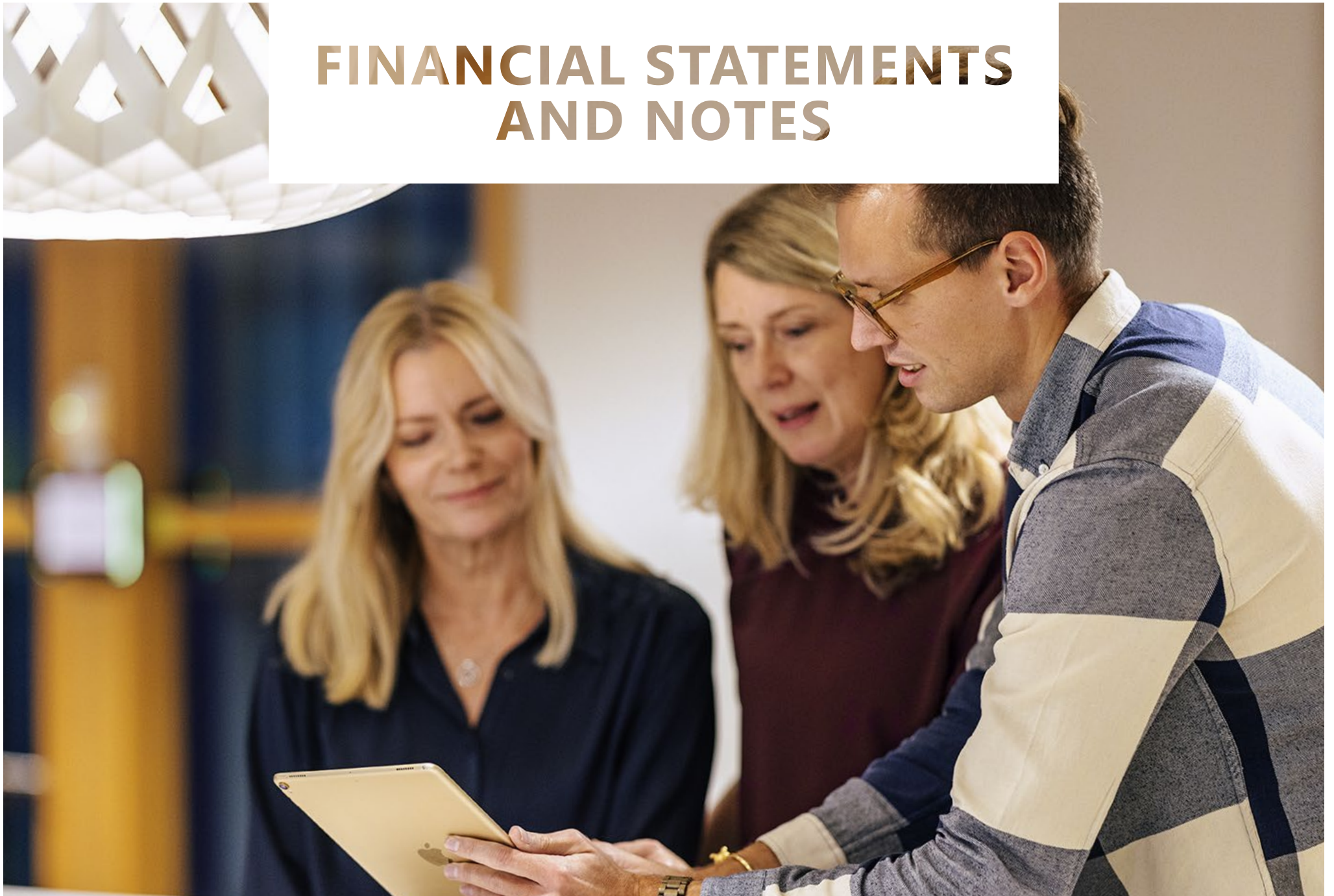
In addition to these functionally focused groups, collaboration also takes place through the AP Funds' Council on Ethics (AP1–AP4) and Innovation Forum (AP1–AP4, AP7).

Collaboration projects in 2022

In 2022, the collaboration groups continued their work, including a digital collaboration day in the spring on the theme of 'How do we create added value in the AP Funds' collaboration and how can we raise quality even further?'. As well as the digital collaboration day, an in-person collaboration day was also arranged in the autumn on the theme of change. The Sixth AP Fund also participated for the first time.

Procurement and evaluation of products and services is another area of ongoing collaboration for the AP Funds. In 2022, the collaboration between several of the AP Funds included the joint procurement of portfolio systems. Other examples of areas of collaboration are the AP Funds' joint specialist programme and cooperation on international tax issues and data security.

FINANCIAL STATEMENTS AND NOTES



Income statement

Amounts in SEK million	Note	Jan–Dec 2022	Jan–Dec 2021
Operating income			
Net interest income	1	3 924	2 866
Dividends received		9 058	5 512
Net income, listed equities and participations	2	–32 470	27 949
Net income, unlisted equities and participations	3	549	21 307
Net income, fixed-income securities		–16 953	–5 123
Net income, derivative instruments		–4 613	–797
Net income, foreign exchange gains/losses		11 724	11 088
Commission expenses, net	4	–201	–208
Total operating income		–28 982	62 594
Operating expenses			
Personnel costs	5	–161	–155
Other administrative expenses	6	–101	–90
Total operating expenses		–262	–245
NET RESULT FOR THE YEAR		–29 244	62 349

Balance sheet

Amounts in SEK million	Note	31/12/2022	31/12/2021
ASSETS			
Equities and participations			
Listed	7	157 838	195 375
Unlisted	8	128 173	110 315
Bonds and other fixed-income securities	9	112 808	134 740
Derivative instruments	10	8 287	967
Cash and bank balances		7 018	4 459
Other assets	11	55	112
Prepaid expenses and accrued income	12	2 079	1 657
TOTAL ASSETS		416 258	447 625
FUND CAPITAL AND LIABILITIES			
Liabilities			
Derivative instruments	10	3 993	6 161
Other liabilities	13	4 170	199
Deferred income and accrued expenses	14	983	220
Total liabilities		9 146	6 580
Fund capital	15		
Fund capital at start of year		441 045	386 224
Net payments to the national pension system		-4 689	-7 528
Net result for the year		-29 244	62 349
Total Fund capital		407 112	441 045
TOTAL FUND CAPITAL AND LIABILITIES		416 258	447 625
Pledged assets and contingent liabilities	16		
Other pledged assets and contingent liabilities		2 296	7 173
Commitments		37 020	34 085

Accounting and valuation principles

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 stated 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 materially affect the reported net result and capital. 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, equity market and currency market are recognised in the balance sheet at the trade date, i.e. the date when the material rights and related risks are transferred between the parties. Any amounts receivable from or payable to the other party between the trade date and settlement date are recognised under other assets and other liabilities respectively. Other transactions, especially those involving unlisted equities, are shown in the balance sheet as per the settlement date, in line with generally accepted market practice.

Netting

Financial assets and liabilities are netted in the balance sheet when there is a legal right to net transactions and an intention to make a net payment or to realise the asset and pay the liability simultaneously.

Foreign currency translation

Transactions in foreign exchange are translated 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 rates on the balance sheet date. Foreign exchanges gains/losses on assets and liabilities in foreign currency are separated into that part attributable to the change in value of the asset or liability in local currency, and that part attributable to the change in the exchange rate. Foreign exchange earnings arising from the change in the exchange rate is recognised in the income statement under Net income, foreign 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 fair value. Fair value is determined using the same methods applied to unlisted equities and participations. There is no requirement to prepare consolidated accounts. 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 recognised as part of the shareholding under Net income, unlisted equities and participations.

Valuation of financial instruments

All Fund investments are measured at fair value, with realised and unrealised changes in value recognised in the income statement. Consequently, both realised and unrealised income are included in net income by asset class. Equity instruments are held for trading and are therefore measured at fair value in the income statement. Debt instruments are held for trading and are therefore measured at fair value in the income statement. Loans to subsidiaries and associated companies are intended to be held to maturity, but the

fair value option is used to ensure that the National Pension Insurance Funds Act's requirements for fair value measurement is met. In cases where reference is made below to the selected index provider, see page 24 for information on the current index. The AP Funds monitor all their assets based on fair value. For a description of how fair value is determined for the Fund's various 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, usually the average market rate. Holdings not included in the index are measured at the listed rates observable on an active market. Commission paid is taken up as income under Net income, listed equities.

Unlisted equities and participations

For equities and participations not traded on a regulated market or trading platform, fair value is based on the valuation received from the counterparty or other external party. This valuation is updated when a new valuation is received and adjusted for any cash flows until the end of the accounting period. Where the Fund has good reason to believe that the value measurement is incorrect, the received value is adjusted.

The valuation of unlisted participations follows 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 methods may also be employed.

The valuation of unlisted real-estate equities is based on the material value method, insofar as the equity has not been subject to

ACCOUNTING POLICIES AND VALUATION PRINCIPLES

transactions on a secondary market. Deferred tax liabilities relating to holdings in unlisted real-estate companies are measured at the value applied to the actual property transactions, as distinct from the value recognised in the accounts of the real-estate companies.

Bonds and other fixed-income assets

For bonds and other fixed-income assets, fair value is based on the official market rate (usually the bid rate) applied at the balance sheet date, according to the Fund's selected index supplier. Holdings not included in the index are measured at the listed rates observable on an active market. Where such instruments are not traded on an active market, and where no reliable listed market rates are available, the instrument is measured using generally accepted valuation models, whereby cash flows are discounted according to a relevant valuation curve.

Interest calculated according to the effective interest method, based on accrued acquisition value, is recognised as interest income. Accrued acquisition value is the discounted net present value of future payments, where the discount rate is the effective interest rate at the time of acquisition. This means that acquired surplus or deficit values are recognised on an accrual basis over the remaining duration or until the next change in coupon rate, and recognised as interest income. Changes in value arising from changes in interest rates are recognised under Net income, fixed-income securities, while changes in value arising from foreign exchange gains/losses are recognised under Net income, foreign exchange gains/losses.

Derivative instruments

For derivative instruments, fair value is based on their listed rates at year-end. Where such instruments are not traded on an active market, and where no reliable listed market rates are available, the instrument shall be measured using generally accepted valuation

models in which the input data consists of observable market data.

Derivative contracts with a positive fair value at the balance sheet date are recognised as assets, while contracts with a negative fair value are recognised as liabilities. Changes in value arising from foreign gains/losses are recognised in the income statement under net income, foreign exchange gains/losses, while other changes in value are recognised under Net income, derivative instruments.

Repurchase transactions

In a true repurchase transaction, also known as a 'repo', the asset sold continues to be recognised in the balance sheet and the payment received is reported as a liability. The security sold is recognised as a pledged asset among memorandum items in the balance sheet. The difference between the payment in the spot leg and forward leg is recognised on an accrual basis over the term and recognised as interest.

Securities lending

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

Items recognised directly in Fund capital

Contributions to and disbursements from the pension system are recognised directly in Fund capital.

Commission expenses

Commission expenses are recognised in the income statement as a deduction under Operating income. These comprise external expenses for asset management services such as custodial expenses and fixed fees to external asset managers, as well as fixed fees for listed funds. The performance-based fees, which are paid when the asset manager attains a return on investment in excess of the agreed level, where profit-sharing is applied, is recognised as a deductible item under net income for the relevant asset class, in the income statement.

Management fees for unlisted equities and participations are recognised as acquisition expenses and thus included in unrealised result.

Operating expenses

All management expenses, excluding brokerage commission, fees to external asset managers and custodial expenses, are recognised under Operating expenses. Investments in equipment and proprietary and purchased software are usually expensed as incurred.

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 netted in the income statement under the respective income classes.

As of 2012, Andra AP-fonden became VAT registered. Consequently, VAT is due on acquisitions outside Sweden. The Fund is not entitled to recover VAT that has been paid. Expensed VAT is included in the respective cost item.

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

Notes to the income statement and balance sheet

NOTE 1 Net interest items

Amounts in SEK million	Jan–Dec 2022	Jan–Dec 2021
Interest income		
Bonds and other fixed-income securities	3 895	2 856
Other interest income	66	42
Total interest income	3 961	2 898
Interest expense		
Other interest expense	–37	–32
Total interest expense	–37	–32
Net interest income	3 924	2 866

NOTE 2 Net income, listed equities and participations

Amounts in SEK million	Jan–Dec 2022	Jan–Dec 2021
Net income, listed equities and participations	–32 387	28 037
less brokerage commission	–83	–88
Net income, listed equities and participations	–32 470	27 949

NOTE 3 Net income, unlisted equities and participations

Amounts in SEK million	Jan–Dec 2022	Jan–Dec 2021
Capital gains	2 760	5 841
Unrealised changes in value	–2 211	15 466
Net income, unlisted equities and participations	549	21 307

External management fees for unlisted assets are recognised as a component of the initial value of the asset and therefore have a negative impact on unrealised net income for unlisted assets. Consequently, refunded management fees have a positive impact on unrealised net income.

During the year, a total of SEK 578 (481) million was paid in management fees relating to unlisted assets. Repayment of SEK 353 (641) million was also made during the year and the unrealised income for unlisted equities and participations was consequently impacted by a net amount of SEK –225 (160) million.

NOTE 4 Commission expenses, net

Amounts in SEK million	Jan–Dec 2022	Jan–Dec 2021
External asset management fees, listed assets	160	167
Other commission expenses, including custodial expenses	41	41
Total	201	208

Commission expenses do not include performance-based expenses. Performance-based expenses for the year totalled SEK –11 (120) million and reduced net income for the respective asset classes. Performance-based fees were negative (i.e. revenue) in 2022 because the provisions made at accounts closing 2021 were too high.

NOTES

Note 4 cont.

EXTERNAL MANAGEMENT MANDATES AT 31 DECEMBER 2022, SEK MILLION

Mandate		Average assets under management in 2022	Market value 31/12/2022*	% Fund capital	External management expense
External discretionary mandates					
Equity mandates					
Active management					
MFS	Global equities	6 468	6 258		
APS	Chinese A-shares	2 061	2 148		
Cephei	Chinese A-shares	3 426	3 200		
UBS	Chinese A-shares	2 805	2 738		
Total external discretionary mandates		14 760	14 344	3	90
Investments in listed external funds					
Equity funds					
		7 046	6 853		
Fixed-income funds					
		4 529	4 502		
Total investments in listed external funds		11 575	11 355	3	70
Investments in unlisted funds		56 771	60 425	15	
Total capital assets under external management and management costs		83 106	86 124	21	160

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

NOTE 5 Personnel

Number of employees	2022			2021		
	Total	Men	Women	Total	Men	Women
Average number of employees	69	44	25	69	45	24
Number of employees, 31 Dec	69	44	25	68	44	24
Number of persons in Executive Management Team, 31 Dec	6	4	2	6	4	2

NOTES

Note 5 cont.

PERSONNEL

Personnel costs in SEK thousand, 2022	Salaries and fees	Variable remuneration	Pension costs	Of which salary exchange	Social charges incl. special employer's contributions	Total
Chair of the Board	215	–	–	–	70	285
CEO	4 418	–	1 643	254	1 790	7 851
Board of Directors, excluding Chair	925	–	–	–	207	1 132
Executive Management Team, excl. CEO						
Chief Investment Officer (CIO) through February	410	–	199	74	182	791
Chief Investment Officer (CIO) from May	2 205	–	499	–	827	3 531
Head of Business Support	1 998	–	1 137	–	905	4 040
General Counsel	2 535	–	786	102	1 015	4 336
Head of Communications and Corporate Governance	2 034	–	759	127	846	3 639
Head of Performance and Risk Management	1 999	–	767	110	816	3 582
Other employees	66 964	–	32 040	–	28 859	127 863
Total	83 703	–	37 830	–	35 517	157 050
Other personnel costs						3 517
Total personnel costs						160 567

Personnel costs in SEK thousand, 2021	Salaries and fees	Variable remuneration	Pension costs	Of which salary exchange	Social charges incl. special employer's contributions	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 Corporate 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

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 received SEK 30 000 and a Board member received SEK 25 000 for work in the Risk Committee. The chair has received SEK 20 000 and a Board member received SEK 15 000 for work in the Audit Committee.

Other directorships held by Board members

See page 57.

CEO

In the CEO's contract of employment, the Fund undertakes to pay pension premiums 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 employment is terminated by the Fund, the CEO is entitled to a severance payment equivalent to 18 months' salary, in addition to salary during the six-month period of notice, less income from new employment. 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 7 (52) thousand.

Executive Management Team

In addition to salaries, other remuneration and pension, the Executive Management Team received benefits as per the following disclosure: Chief Investment Officer through February SEK 15 (29) thousand, Chief Investment Officer from May SEK 45 (–) thousand, Head of Business Support SEK 4 (4) thousand, General Counsel SEK 6 (4) thousand, Head of Communications and Governance SEK 6 (4) thousand, Head of Performance and Risk Management SEK 4 (5) thousand. Senior executives come under the terms of the pension 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.

NOTES

Note 5 cont.**Salary exchange**

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

Variable remuneration

The Board of Directors took the decision in 2021 to discontinue the incentive programme from 2022.

Preparation and decision process

The fees paid to the Board of Directors are determined by the Swedish Government. The Board of Directors sets the CEO's salary and guidelines on remuneration for 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 has used these statistics to compare remuneration levels for all of its employees. For 2022, the Fund's remuneration levels were compared with 20 or so private and state organisations in the financial sector, including the other AP Funds. The Fund's remuneration policy is based on the level of remuneration being close to the median for the benchmark group used 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 aforementioned 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. 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 2022	Jan–Dec 2021
Costs for premises	7	7
Information and IT expenses	70	65
Purchased services	15	12
Other costs	9	6
Total other administrative expenses	101	90
Auditors fees		
Auditing assignments		
PwC	0.82	0.81
Auditing services in addition to the audit		
PwC	0.10	0.00
Total remuneration to PwC	0.92	0.81

NOTE 7 Equities and participations, listed

Amounts in SEK million	31/12/2022	31/12/2021
Swedish equities	34 234	44 510
Foreign equities	116 751	143 295
Participation in foreign funds*	6 853	7 570
Total	157 838	195 375
*Of which participation in mixed funds.	–	–

Like others participants 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 108 per cent of the market value of loaned securities.

In 2022, income from securities lending totalled SEK 19 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 99–101.

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

NOTES

NOTE 8 Equities and participations, unlisted

Amounts in SEK million					31/12/2022	31/12/2021			
Swedish equities in associated companies					29 527	26 082			
Foreign equities in associated companies and subsidiaries					33 791	31 086			
Other unlisted Swedish equities and participations					–	–			
Other unlisted foreign equities and participations					64 855	53 147			
Total					128 173	110 315			
Amounts in SEK million	Comp. reg. no.	Registered office	Number of shares	Share of capital/voting rights, %	31/12/2022 Fair value	31/12/2021 Fair value	Share-holders' equity	Profit/loss	
Swedish equities in associated companies									
Vasakronan Holding AB	556650-4196	Stockholm	1 000 000	25	28 081	25 253	89 767	8 465	
4 to 1 Investments AB	559313-2490	Stockholm	6 250	25	0	1	1	–1	
4 to 1 Investments KB	969795-3033	Stockholm		25	1 446	828	5 782	0	
Total Swedish equities in associated companies					29 527	26 082			
Foreign equities in associated companies and subsidiaries									
Chaptwo S.à.r.l.		Luxembourg		100	2 964	3 347			
Gateway VI Co-Investment Account (AP2) L.P.		Cayman Islands		100	1 810	1 490			
Lewis & Clark Timberlands LLC		USA		24	1 872	1 349			
Molpus Nordic Woodlands L.P.		USA		99	1 684	1 283			
TIAA-CREF Global Agriculture LLC		USA		23	3 497	2 998			
TIAA-CREF Global Agriculture II LLC		USA		25	6 693	5 923			
U.S. Office Holdings L.P.		USA		41	5 332	5 171			
U.S. Core Office APTWO L.P. *		USA		99	7 421	6 588			
U.S. Office APTWO JV II L.P.**		USA		99	2 518	2 937			
Total foreign equities in subsidiaries and associated companies					33 791	31 086			

* 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, %	31/12/2022 Acquisition value	31/12/2021 Acquisition value
Five largest holdings in other unlisted foreign equities and participations				
Generate Capital, Inc.	USA	6	2 176	1 336
Riverstone Pattern Energy III, L.P.	USA	35	974	799
TIAA European Farmland Fund LP	Cayman Islands	43	883	992
TPG Rise Fund II, L.P.	Cayman Islands	5	677	336
Teays River Investments, LLC	USA	6	665	665

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

NOTE 9 Bonds and other fixed-income securities

Amounts in SEK million	31/12/2022 Fair value	31/12/2021 Fair value
Breakdown by issuer category		
Swedish Government	4 619	4 691
Swedish municipalities	275	453
Swedish mortgage institutions	2 477	4 994
Other Swedish issuers		
Financial companies	10 294	11 227
Non-financial companies	267	296
Foreign governments	39 537	49 595
Other foreign issuers	55 338	63 483
Overnight deposits	1	1
Total	112 808	134 740
Breakdown by type of instrument		
Other bonds	105 979	128 441
Unlisted loans	2 326	2 177
Participation in foreign fixed-income funds	4 502	4 121
Overnight deposits	1	1
Total	112 808	134 740

NOTES

NOTE 10 Derivative instruments

Amounts in SEK million	31/12/2022		31/12/2021	
	Fair value Positive	Fair value Negative	Fair value Positive	Fair value Negative
Equity-related instruments				
Forward contracts	–	6	55	–
Total	–	6	55	–
of which cleared	–	–	–	–
Interest-related instruments				
FRAs/Forward contracts	–	39	–	8
Swaps	–	–	–	108
Total	–	39	–	116
of which cleared	–	–	–	–
Currency-related instruments				
Options, held	3	–	18	–
Options, pledged	–	69	–	16
Forward contracts	8 284	3 879	894	6 029
Total	8 287	3 948	912	6 045
of which cleared	–	–	–	–
Total derivative instruments	8 287	3 993	967	6 161

No derivative positions have a longer maturity than 12 months.

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 com-

mitments 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 providing currency hedging for the Fund's portfolios. They also contribute to more efficient asset management, create added value and reduce risk. Andra AP-fonden's use of derivatives is regulated in the Fund's business plan. One of the restrictions is that call options and forward contracts may only be issued if adequate collateral is available in the form of holdings in underlying assets. In 2022, derivatives were primarily used in the following areas:

- Foreign exchange derivatives – forward contracts and options – for managing the Fund's currency exposure.
- Equity derivatives – mainly standardised equity-index forward contracts – for efficient rebalancing of the portfolio and when adopting positions in tactical asset allocation.
- Interest rate derivatives – mainly standardised interest rate forwards and interest rate swaps – for rebalancing, tactical asset allocation and managing the Fund's interest risk. Limited utilisation of interest rate options to position the Fund in respect of interest rate risk.
- Structured derivatives – used to create exposure to market fluctuations that are not available in traditional equity, interest rate 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 be utilised using short and long positions in the permitted asset classes.

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

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

NOTES

NOTE 11 Other assets

Amounts in SEK million	31/12/2022	31/12/2021
Receivables, assets sold but not settled	47	104
Other receivables	8	8
Total	55	112

NOTE 12 Prepaid expenses and accrued income

Amounts in SEK million	31/12/2022	31/12/2021
Accrued interest income	1 431	1 192
Accrued dividends	255	177
Restitutions	369	265
Other prepaid expenses and accrued income	24	23
Total	2 079	1 657

NOTE 13 Other liabilities

Amounts in SEK million	31/12/2022	31/12/2021
Liabilities, assets purchased but not settled	127	0
Accounts payable	8	10
Other liabilities	4 035	189
Total	4 170	199

NOTE 14 Deferred income and accrued expenses

Amounts in SEK million	31/12/2022	31/12/2021
Accrued external management fees	20	33
Accrued interest expense on currency forwards	925	153
Other accrued expenses	38	34
Total	983	220

NOTE 15 Fund capital

Amounts in SEK million	31/12/2022	31/12/2021
Fund capital at start of year	441 045	386 224
Net payments to the national pension system		
Pension contributions received	81 822	75 597
Pension disbursements to the Swedish Pensions Agency	-86 259	-82 885
Transfer of pension entitlements to EC	0	-1
Adjustment of pension entitlements regarding previous years	0	-3
Administration payment to the Swedish Pensions Agency	-252	-236
Total net payments to the national pension system	-4 689	-7 528
Net result for the year	-29 244	62 349
Fund capital at year-end	407 112	441 045

NOTE 16 Pledged assets and contingent liabilities

Amounts in SEK million	31/12/2022	31/12/2021
Other pledged assets and contingent liabilities		
Securities on loan against cash and securities collateral received*	869	858
Collateral pledged in connection with exchange-cleared derivatives	464	326
Collateral pledged in connection with OTC derivatives (CSA contracts)**	963	5 989
Total	2 296	7 173
Commitments		
Commitments regarding future investments, unlisted holdings	32 520	29 585
Subscription commitments, certificates	4 500	4 500
New issue guarantee	-	-
Total	37 020	34 085

* Collateral received for securities on loan is SEK 939 (955) million.

** Carrying amount of liabilities relating to cash collateral received for OTC derivatives is SEK 4 021 (117) million. Collateral received in the form of securities for OTC derivatives SEK 382 (125) million.

NOTE 17 Financial instruments, price and value 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 prices that represent actual and regularly occurring market transactions. Andra AP-fonden's market-listed assets are measured 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. Valuation of the Fund's holdings in currency forward contracts, interest rate swaps and currency options are measured on the basis of theoretical models, in which 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 2022, 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 to measure the value. At such times, the market exhibits a sharp increase in differences between bid and offer rates, which can also lead to marked 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 market-places are taken into consideration. In such instances, each individual security is appraised separately.

Valuation of Fund capital – Unlisted assets

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

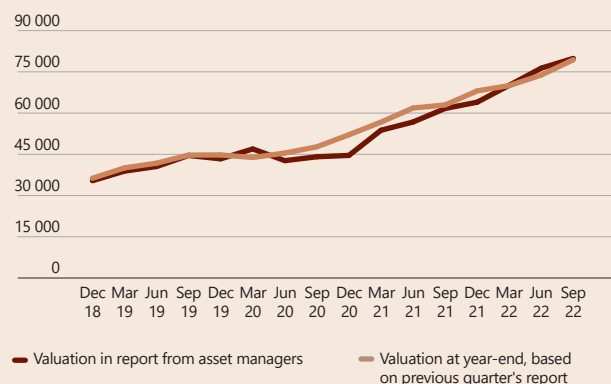
The fair value is considered to be equal to the price at which a transaction between informed and mutually independent parties can be completed. In Andra AP-fonden's case, assets not listed on markets are unlisted real estate (18.5 per cent of the total portfolio), private equity funds (12.0 per cent of the total portfolio), sustainable infrastructure (1.8 per cent of the total portfolio) and private debt (0.4 per cent of the total portfolio).

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

NOTES

Note 17 cont.

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 asset managers.

Asset managers mainly use discounted cash flows, the net asset value method and multiple valuation to calculate fair market values. Valuation of holdings is based on the most recent interim reports received from the respective managers. The interim reports are normally available within 90 days of a quarterly financial statement. This means that when Andra AP-fonden's holdings were valued at year-end 2022, the valuation at 30 September 2022 was mainly used, adjusted for inflows and outflows during the fourth quarter. The Fund has used this valuation method consistently since its inception.

An analysis of what impact this delay has had since December 2018 shows that Andra AP-fonden's valuation in the official year-end accounts has mainly been lower than that in the final report from the asset managers.

Fair value

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

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

FAIR VALUE HIERARCHY, SEK MILLION

	31/12/2022			Total fair value
	Level 1	Level 2	Level 3	
Equities and participations, listed	150 985	6 853	–	157 838
Equities and participations, unlisted	–	–	128 173	128 173
Bonds and other fixed-income securities	105 990	4 492	2 326	112 808
Derivative assets	–	8 287	–	8 287
Derivative liabilities	–	–3 993	–	–3 993
Financial assets and liabilities, measured at fair value	256 975	15 639	130 499	403 113*

	31/12/2021			Total fair value
	Level 1	Level 2	Level 3	
Equities and participations, listed	187 762	7 613	–	195 375
Equities and participations, unlisted	–	–	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, measured at fair value	316 206	6 537	112 492	435 235*

* 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 for which 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 unlisted 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, unlisted equities and participations.

Sensitivity analysis, unlisted 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 raw material 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 macro-economic factors are parameters that significantly affect the value of an 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 raw material 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 raw materials and result in lower income for the operators and, ultimately, 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 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 lag as valuations are performed quarterly.

In Andra AP-fonden's experience, most asset managers generally adopt a conservative approach in their valuations, something that is especially apparent in markets with rapid and sharp rises in share prices.

NOTES

Note 17 cont.

CHANGE DURING 2022 IN LEVEL 3, SEK MILLION

	Equities and participations, listed	Equities and participations, unlisted	Bonds and other fixed-in- come securities	Total
Carrying value at start of year	–	110 315	2 177	112 492
Invested	–	12 736	18	12 754
Sold/repaid during the year	–	–5 530	–	–5 530
Realised profit	–	2 762	–	2 762
Unrealised change in value	–	7 890	131	8 021
Reclassifications	–	–	–	–
Carrying value at year-end	–	128 173	2 326	130 499

CHANGE DURING 2021 IN LEVEL 3 SEK MILLION

	Equities and participations, listed	Equities and participations, unlisted	Bonds and other fixed-in- come securities	Total
Carrying value at start 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 value	–	21 987	90	22 077
Reclassifications	–	–	–	–
Carrying value at year-end	–	110 315	2 177	112 492

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 premises and thus a decrease in vacant leases, with potential for higher market rental rates. The single most important factor is the 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 4.3 billion respectively.

Sustainable infrastructure

The valuation of companies and funds in the sustainable infrastructure portfolio is driven, as with the valuation of private equity funds, by performance and assumptions of the underlying companies' earnings growth and improved margins, and any reduction in debt. Different valuation models, such as cash flow analysis and multiple valuation, are often combined. Most investments in the portfolio relate to companies developing new infrastructure, in which case the companies' projects are initially valued at the total costs incurred until an end-customer contract is signed and a cash flow analysis is possible.

Private debt

There is, for obvious reasons, no market data for private debt. Value is instead measured by making various assumptions, primarily regarding risk. The data used may also contain price information, data on volatility, specific credit data, liquidity and other factors. A difference is often made between a market-based valuation and an earnings-based valuation.

The market-based valuation approach is based on comparable transactions in the public market, whereas an earnings-based valuation is derived from a present value calculation of future cash flows from the asset, which is then adjusted based on liquidity, credit quality and other risk factors.

As private debt is almost exclusively issued with variable interest, changes in interest rates should not affect a market-based valuation of this portfolio other than marginally. Rising interest rates may, however, affect the earnings-based valuation, due to increasing cash flows, although this takes place at the expense of a rising level of risk as not all borrower may cope with higher interest rates. The opposite is true, of course, during times of falling interest rates.

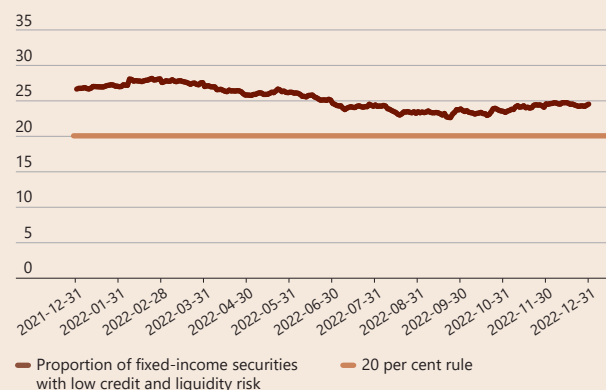
As with private equity funds, the external asset managers hired by Andra AP-fonden for investments in private debt tend to take a conservative approach to valuation, with only small ongoing changes in valuations occurring as a result of external factors.

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 state that at least 20 per cent of the AP Funds' total capital must be invested in securities with 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 2022, the Fund's investment in securities with a low credit and liquidity risk was around 25 per cent and its investment in illiquid assets was about 30–35 per cent. The liquidity risk on the liability side is very small and consists of derivative liabilities.

For further risk data, see the section on portfolio risk, on pages 72–77.

LIQUIDITY RISK, %**FINANCIAL ASSETS AND LIABILITIES THAT ARE NETTED IN THE BALANCE SHEET OR SUBJECT TO OFFSETTING AGREEMENTS**

31/12/2022	Gross amount	Netted amounts in the balance sheet	Net amount in the balance sheet	Amounts not netted in the balance sheet		Net amount after set-off	Other*	Total in the balance sheet
				Set-off of financial instruments by agreement	Collateral received/given			
ASSETS								
Derivatives	8 287	–	8 287	–258	–4 403	3 626	–	8 287
Total	8 287	–	8 287	–258	–4 403	3 626	–	8 287
LIABILITIES								
Derivatives	3 948	–	3 948	–258	–963	2 727	45	3 993
Total	3 948	–	3 948	–258	–963	2 727	45	3 993

31/12/2021	Gross amount	Netted amounts in the balance sheet	Net amount in the balance sheet	Amounts not netted in the balance sheet		Net amount after set-off	Other*	Total in the balance sheet
				Set-off of financial instruments by agreement	Collateral received/given			
ASSETS								
Derivatives	912	–	912	–258	–303	351	55	967
Total	912	–	912	–258	–303	351	55	967
LIABILITIES								
Derivatives	6 152	–	6 152	–258	–5 989	–95	8	6 160
Total	6 152	–	6 152	–258	–5 989	–95	8	6 160

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

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 by 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	31/12/2022	31/12/2021
Related parties, voting rights		
Vasakronan Holding AB, 25 per cent		
Interest income	9	9
Commitment to purchase, at Vasakronan's request, commercial paper in the company up to, at any given time, a maximum combined amount of	4 500	4 500
Chaptwo S.à.r.l., 100 per cent		
Interest income	76	57
Shareholder loans, including accrued interest	2 368	2 189
Shareholder contribution/repayment during the year	189	310
Investment commitment	392	1 026
4 to 1 Investments AB, 25 per cent		
Shareholder contribution	–	1
4 to 1 Investments KB, 25 per cent		
Capital contribution	598	828

The Annual Report for 2022 has been approved by the Board of Directors

Gothenburg, 15 February 2023

Jan Roxendal
Chair

Lin Lerpold
Vice Chair

Martina Björkman Nyqvist

Hanse Ringström

Agneta Wallmark

Rikard Andersson

Kristina Mårtensson

Åsa Erba Stenhammar

Mikael Bohman

Our audit report was submitted on 15 February 2023

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 2022. The Fund's annual report is presented on pages 59–96 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 give a true and fair view, in all material respects, of the financial position of Andra AP-fonden at 31 December 2022 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 Auditor's Responsibilities section. We are independent of Andra AP-fonden, in accordance with generally accepted auditing standards in Sweden, and 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 1–58 and 99–101. 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 conclusion regarding assurance of such other information.

In connection with our audit of the annual report, our responsibility is to read the other information identified above and, in doing so, consider whether the information is materially inconsistent with the annual report. We also consider other knowledge we have obtained during the audit and assess whether, in other respects, this information appears to contain material misstatements.

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 this. 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 the ability to continue as a 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 disregard 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 regarding such material uncertainty 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, of 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 in 2022.

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 Auditor's responsibilities section. 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.

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, among 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 2022 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 breaches would materially affect Andra AP-fonden's situation. We examine and review decisions made, support for decision-making, actions taken and other circumstances that are relevant to our opinion on the Fund's management.

Gothenburg, 15 February 2023

Helena Kaiser de Carolis

Authorised Public Accountant

Appointed by the Swedish Government

Peter Nilsson

Authorised Public Accountant

Appointed by the Swedish Government

Equities, participations and fixed-income securities

ANDRA AP-FONDEN'S 20 LARGEST SWEDISH SHAREHOLDINGS*

Company name	Share of capital, %	Number of	Market value, SEK million	Share of votes, %	Sector
Swedbank A	0.79	8 896 348	1 577	0.79	Finance
Evolution Gaming Group	0.70	1 516 265	1 540	0.70	Consumer discretionary goods
SEB A	0.53	11 451 036	1 374	0.53	Finance
Volvo B	0.34	6 865 538	1 294	0.11	Industry
Hexagon B	0.42	11 301 374	1 232	0.31	IT
Assa Abloy B	0.44	4 929 949	1 103	0.30	Industry
Trelleborg B	1.61	4 373 199	1 053	0.83	Industry
Sagax B	0.85	3 941 964	932	0.56	Real estate
Atlas Copco A	0.15	7 460 318	918	0.21	Industry
Investor B	0.16	4 840 202	913	0.03	Finance
Husqvarna B	1.92	11 048 516	808	0.70	Consumer goods
Sandvik	0.34	4 274 624	805	0.34	Industry
Boliden	0.70	1 909 727	747	0.70	Materials
Epiroc	0.32	3 928 076	746	0.46	Industry
Essity	0.37	2 590 200	708	0.21	Consumer goods
Addnode Group	4.95	6 656 608	655	3.91	IT
Svenska Handelsbanken A	0.31	6 109 560	642	0.31	Finance
Hexpol	1.58	5 454 944	606	1.14	Materials
Embracer Group	0.97	12 207 400	577	0.66	Communication
Nolato B	3.82	10 287 486	562	1.99	Industry

* The table lists the Fund's 20 largest holdings in Swedish equities in terms of value.

A complete list of the Fund's equity portfolio can be found on the Fund's website.

EQUITIES, PARTICIPATIONS AND FIXED-INCOME SECURITIES

ANDRA AP-FONDEN'S HOLDINGS IN LISTED FUNDS

Name	Holding, participations	Fair value, SEK million
Generation IM Global Equity Fund Class I 20071201	518 017	3 428
Generation IM Global Equity Fund Class I 20090401	266 258	1 762
GAM FCM Cat Bond Inst Initial Series	826 478	1 520
AQR Merger Arbitrage Fund	1 021 369	1 443
Elementum Zephyrus Total Return Cat Bond	96 018	1 268
CS Iris S Fund Ltd.	75 807	967
AQR Opportunis Convertible Arbitrage Offshore Fund	525 937	746
Generation IM Global Equity A Shares LTA20 090401	34 543	219
GAM FCM Cat Bond 2022 Series 10	518	1
GAM FCM Cat Bond 2022 Series 7	506	1
GAM FCM Cat Bond 2022 Series 1	499	1
GAM FCM Cat Bond 2022 Series 4	497	0

EQUITIES, PARTICIPATIONS AND FIXED-INCOME SECURITIES

ANDRA AP-FONDEN'S 20 LARGEST FOREIGN SHAREHOLDINGS*

Company name	Number of	Market value, SEK million	Sector
Nordea Bank	12 761 878	1 425	Finance
Kweichow Moutai	322 901	836	Consumer goods
AstraZeneca	532 014	747	Healthcare
ABB Ltd	2 045 362	647	Industry
China Merchants Bank	7 072 252	395	Finance
Roche Holding	93 233	305	Healthcare
China International Travel Service Corp	874 429	283	Consumer discretionary goods
Visa	128 013	277	IT
Better Collective	2 170 724	276	Consumer discretionary goods
Thermo Fisher Scientific	46 980	270	Healthcare
Wanhua Chemical Group	1 896 255	263	Materials
Ping An Bank	12 991 549	256	Finance
Schneider Electric	172 925	251	Industry
Richemont	185 300	250	Consumer discretionary goods
Beijing Venustech	6 369 569	249	IT
LVMH Moët Hennessy Vuitton	32 393	245	Consumer discretionary goods
Comcast	657 421	240	Communication
McKesson	60 000	235	Healthcare
Yunnan Baiyao Group	2 860 224	233	Healthcare
Accenture	82 561	230	IT

* 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 FIXED-INCOME SECURITIES

Swedish nominal bonds, five largest holdings

Bond	Fair value, SEK million
Swedish Government #1058	1 357
Stadshypotek AB #1591	1 150
Swedbank Hypotek #195	1 062
Stadshypotek AB #1590	1 000
Länsförsäkringar #518	917

Global credits, five largest holdings

Bond	Fair value, SEK million
CVS Health	453
Pfizer	389
Canadian Imperial Bank	356
Royal Bank Canada	354
AstraZeneca	353

Global government bonds, five largest holdings

Bond	Fair value, SEK million
FRANCE O.A.T. FRTR 1 3/4 06/25/39	548
JAPAN GOVT 10-YR JGB 0.1 12/20/30	536
JAPAN GOVT 10-YR JGB 0.1 03/20/28	470
JAPAN GOVT 20-YR JGB 0.2 06/20/36	360
JAPAN GOVT 5-YR JGB 0.1 12/20/25	316

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



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