

Understanding the needs of the system is essential for pension security ___

... transforms into profitable investments

SEK 292 billion net increase in the Fund capital since 2001

Mission from the Swedish Parliament ...

To be of the greatest possible benefit to the pension system.

... is formulated by the Board into a goal ...

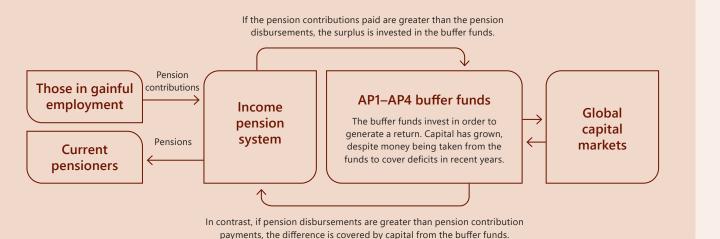
To minimise the consequences of the brake over a 30-year period.

... which AP2, via expertise and analysis ...

The portfolio is designed according to the needs of the pension system.

FIND OUT MORE ABOUT THE ALM ANALYSIS ON PAGE 1

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.



Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Financial statements and notes



C)ve	rvie	w	

Investment strategy

Assets

About Andra AP-fonden 2023 in brief Long-term mission Macro and market CEO's review 10 Mission and organisation Mission, goal and vision 13 Fund capital built on human capital 15 Investments Interview with Chief Investment Officer 18 Experts in the pension system 19 Pension system development 21

Sustainability

22

26

Detailed sustainability information	29
Summary of information within the focus areas	33
Human rights and social conditions	36
Sustainability data	38
Signatures and statement	40
Fund governance	
Fund governance Fund Governance Report	42
3	42 45
Fund Governance Report	

Directors' Report

Result and performance 2023
Net result for the year
Portfolio return
Relative performance of the listed portfolio
Performance of alternative investments
Internal governance and control
Portfolio risk
Currency exposure
Costs

Financial statements and notes

65

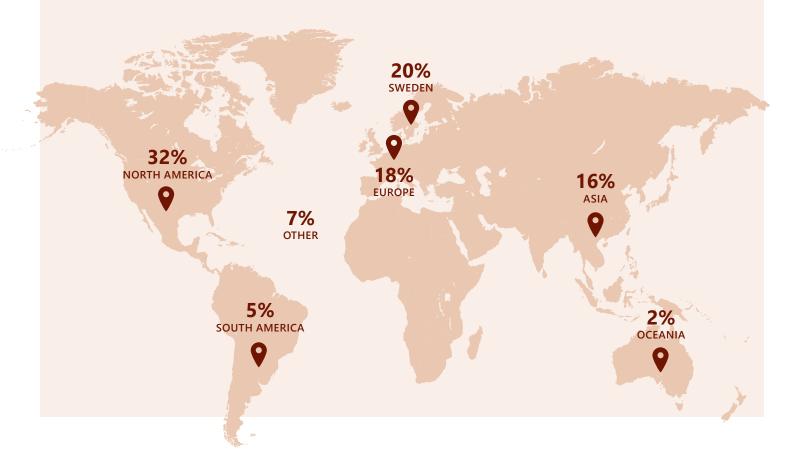
66

48	Income statement	70
49	Balance sheet	71
51	Accounting policies and valuation principles	72
52	Notes	74
54	Auditor's report	85
58	Equities, participations and fixed-income securities	87
60		

Mission and organisation Fund governance **Directors' Report**

Andra AP-fonden – a global asset manager

Andra AP-fonden is one of Northern Europe's largest pension funds, managing SEK 426.0 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 map below shows AP2's portfolio by geographic market.

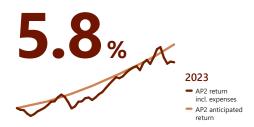


Long-term mission

Since inception in **2001**...

SEK 82.2 billion

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



the Fund's capital has still increased by

SEK 292 billion

ensuring security for future pensioners.

Overview

About Andra AP-fonden 2023 in brief Long-term mission Macro and market

Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report

2023 in brief

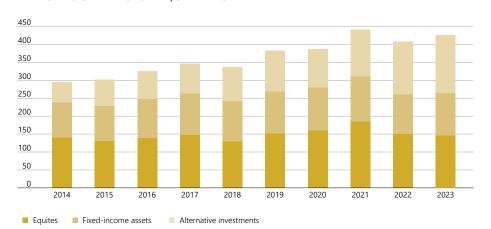
Andra AP-fonden reported a total return of 5.9 per cent, after expenses. At 31 December 2023, the Fund's capital stood at SEK 426.0 billion. The net result for the year of SEK 23.8 billion mainly reflects a positive performance of Swedish and foreign developed equity markets, however with a negative performance for real-estate investments. The Fund's listed portfolio generated a return of 11.1 per cent for the year, including currency hedging. The active return for the year was 0.23 per cent and the combined relative return was 0.20 per cent. The Fund has continued to reduce its costs and the management expense ratio was 0.09 per cent. Andra AP-fonden's net outflows for the year to the national pension system was SEK 4.8 billion.

Persistent focus on sustainability

AP2 has continued to build on its sustainability work during the year. This has occurred in all five priority focus areas. Climate plans have been defined for additional asset classes, and the Fund's reporting has been extended with emissions data for more asset classes and Scope 3.

The Fund was also one of the financial operators acknowledged at the World Economic Forum in Davos in January 2024 as an early adopter of the new Taskforce on Nature-related Financial Disclosures (TNFD) framework, as the Fund is publishing its report for 2023 in the spring.

THE FUND'S CAPITAL GROWTH, SEK BILLION



Five-year overview, financial key ratios

	2023	2022	2021	2020	2019
Fund capital, flows and results, SEK million					
Fund capital	426 040	407 112	441 045	386 224	381 350
Net outflows to the national pension system	-4 833	-4 689	-7 528	-7 902	-6 520
Net result for the year	23 761	-29 244	62 349	12 776	53 042
Return, %					
Return on total portfolio before commission expenses and operating expenses	6.0	-6.6	16.4	3.7	16.1
Return on total portfolio after commission expenses and operating expenses	5.9	-6.7	16.3	3.5	15.9
Annualised return after commission expenses and operating expenses, 5 years	6.6	5.2	8.5	7.3	7.4
Annualised return after commission expenses and operating expenses, 10 years	6.8	7.4	9.5	7.7	8.4
Risk, %					
Standard deviation ex-post, total portfolio ¹	7.1	7.1	4.2	6.2	6.4
Sharpe ratio ex-post, total portfolio	1.1	neg	3.9	0.4	4.0
Management expense ratio as % of managed capital					
Management expense ratio, incl. commission expenses	0.09	0.11	0.11	0.14	0.15
Management expense ratio, excl. commission expenses	0.07	0.06	0.06	0.06	0.07
Currency exposure, %	22	23	34	34	34
Total carbon emissions, Scope 1–3 ²					
Total carbon emissions (million tCO₂e)³	5.4	7.2	8.2	6.9	10.5
Corporate governance					
Number of nomination committees	12	9	8		
Voting at general meetings, Swedish	127	121	134		
Voting at general meetings, foreign	1 401	1 261	1 092		

¹ Calculated on a 10-year quarterly return.

About Andra AP-fonden

2023 in brief

Long-term missio

Macro and marke

CEO's review

Mission and organisation

Investments

Sustainability

Fund governance

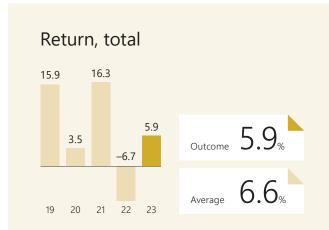
Directors' Repor

Financial statements and notes

² Carbon measurements as from and including 2019 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. The measurement includes the Fund's investments in listed equities, corporate bonds, government bonds (Scope 1), unlisted real estate, sustainable infrastructure and farmland and timberland. The Fund does not have any Scope 3 data for farmland.
³ The 2019–2022 period includes estimated data for the asset classes for which there is no historical data.

Overview

Long-term financial outcome



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.

Outcome 2023

The total return for the year after expenses was 5.9 per cent, and the result was mainly driven by a positive performance of primarily Swedish and foreign developed equity markets, while the Fund had a negative performance mainly within real-estate investments.

AP2 has generated an annual average return of 6.6 and 6.8 per cent over the past five and ten years, respectively.



Based on its mission, AP2 has designed a portfolio that is expected to generate a long-term average annual real return of 4.5 per cent.

Outcome 2023

The real return for the year was 1.4 per cent. The expected return is based on expected annual inflation of two per cent. The return in individual years can deviate materially from the long-term expected return. Inflation in recent years has been high, which has impacted the Fund's real return.

In the past 10 years, AP2 has generated a return of 92.4 per cent, corresponding to an average annual return of 6.8 per cent. Adjusted for inflation, this corresponds to a real annual return of 3.9 per cent.





AP2 conducts efficient asset management. In an international comparison, management expenses are lower than for similar funds.

Outcome 2023

In 2023, the Fund further reduced its total costs by completing the termination of a number of external mandates. Costs have gradually been reduced over several years via the termination of most of the Fund's external mandates within various asset classes. The management expense ratio for 2023, including commission expenses, was 0.09 per cent.

Overview

About Andra AP-fonde.
2023 in brief
Long-term mission

CEO's review

Mission and organisation

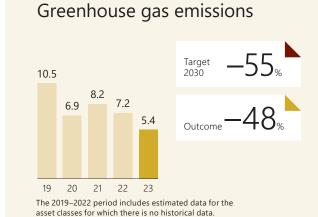
ilivestillellts

Sustainability

Fund governance

Directors' Report

Long-term sustainability goals

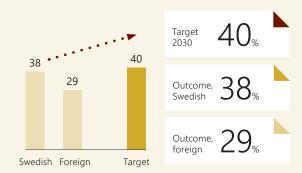


Greenhouse gas emissions are to be reduced by 55 per cent by the year 2030 (base year 2019).

Outcome 2023

For the first time, AP2 has combined its total carbon emissions (Scope 1–3), which for 2023 totalled 5.4 million tCO_2e . This is a substantial reduction from 2019, when the Fund's total carbon dioxide emissions were 10.5 million tCO_2e . AP2 is aware that there is considerable uncertainty mainly in terms of Scope 3 data, as the proportion of estimated data is still very high, but is still keen to be as transparent as possible with regard to the portfolio's emissions.

Diversity in portfolio companies

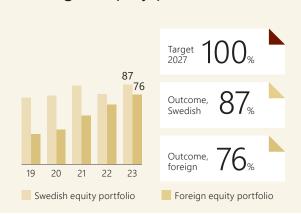


The Fund's listed holdings should have on average at least 40 per cent of each gender on the board by 2030.

Outcome 2023

The average proportion of female board members is higher for the Fund's Swedish holdings than for foreign holdings.

Voting in equity portfolios



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

Outcome 2023

The proportion where AP2 voted has risen in recent years for both the Swedish and foreign equity portfolios and this year is the highest to date.

Corporate governance dialogue with companies



Active and responsible ownership via an increased number of dialogues.

Outcome 2023

AP2 conducts dialogues with companies both on its own initiative and in cooperation with other investors. During the year, the Fund implemented a system to support its dialogues.

Overview

About Andra AP-fonden

2023 in brief

Long-term mission

Macro and marke

CEO's review

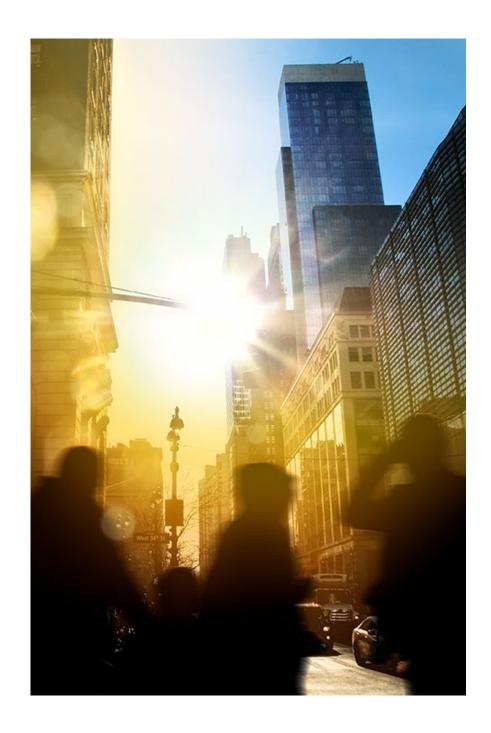
Mission and organisation

Investments

Sustainability

Fund governance

Directors' Report



Inflation and interest rate hikes impact economy

The high inflation at the start of 2023 caused central banks to continue to raise their policy rates during the year. Many were surprised by the strong labour markets, and pessimistic growth forecasts were gradually revised upwards during the year. Inflation then fell back. In 2024, growth is expected to be a little weaker, while central banks are expected to reduce their policy rates.

Better economic conditions than expected

Expectations for growth in the economy were modest ahead of 2023. The forecasts indicated the weakest global performance since the financial crisis, disregarding the year of the pandemic in 2020, when many economies either came to a standstill or shrank. This was no surprise given the sharp rises in policy rates from the central banks of most countries in 2022. But as the year progressed, forecasters were forced to revise their growth outlooks time and again, as the global economy exceeded expectations.

Strong labour markets

One key reason for the economy performing better than anticipated was that labour markets proved to be extremely resilient. As recently as August, for example, the lowest level of unemployment in the eurozone was noted since the introduction of the euro in 2000. The same trend has been seen in other regions. In the USA, unemployment at the start of the year was the lowest since the end of the 1960s, and in Sweden the number of employed reached new record levels last summer. There are a number of reasons behind this development. During the pandemic, access to labour was low, so at the start of the year there was still considerable demand for labour. For the same reason, many companies therefore focused on retaining their employees to a much greater extent than previously. There are also demographic factors. In many parts of Europe, the supply of labour is shrinking, because there are more people retiring than young people entering the labour market. In the USA, the percentage of working women aged 35-54 has risen, thereby helping boost the number of employed.

Overview

About Andra AP-fonde 2023 in brief Long-term mission Macro and market

Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Financial statements and notes

Falling inflation

The sharp increase in prices in 2022 peaked towards the end of that year. In Sweden, inflation rose by up to 12 per cent at an annualised rate in February last year, to then gradually fall during the year in line with the rate of inflation in most developed economies, albeit at a slightly higher level. Price increases prior to this were driven by something of a perfect price storm, triggered by the effects of the pandemic and the war in Ukraine. Limited supply, along with a demand boom primarily for consumer durables, followed by the challenging energy situation fuelled these increases. For companies, this meant a rise in the cost of input goods, which was then passed on to end customers. In 2023, the cost of raw materials, fuel, energy and transportation, for example, declined; a development that was largely behind the slowdown in general inflation indicators. Meanwhile, long lead times for other costs such as rent meant that inflation fell at a slower rate than expected. In Sweden, the weak krona has made imported goods more expensive, which has also led to inflation remaining higher for longer in Sweden that in other regions.

It is generally accepted among economists that high inflation is bad for the economy in the long term. So it is in everyone's interests to avoid a rising wage-price spiral. The Swedish two-year collective wage agreement that was concluded in the spring can be viewed from this perspective. The relatively moderate wage increases introduced by the agreement made the work of the Riksbank easier. Both the length and the level of the agreement indicate that the risks of wage-driven inflation are deemed low.

The war in Ukraine continues, unfortunately with no clear end in sight, and this constitutes a risk of rising energy prices. The war in the Middle East may also push up raw material prices, but so far the effects have been limited. In the autumn, gas stocks in Europe were at record-high levels. There would therefore have to be an unusually cold winter for gas prices to soar and once again have a significant impact on electricity prices and inflation.

Central bank hikes at an end

With clearly falling inflation towards the end of the year, there was a shift among the central banks of developed countries. From raising their policy rates significantly in both 2022 and 2023, the increases appeared to have come to an end. In the forecasts ahead of 2023, the expectation was that the rapid interest rate hikes would reduce economic activity. There were indications of such in spring 2023, when several regional US banks found themselves struggling. But following rapid and robust intervention from the authorities and a general assessment that the banking system as a whole was solid, fears were allayed relatively quickly.

As for Sweden, the Riksbank raised its policy rate to 4.0 per cent in the autumn – the same level as the European Central Bank, and just over one percentage point lower than the US central bank (5.25–5.50 per cent). The effects of these policy rate increases are expected to have a greater impact on economic activity in 2024.

Downturn ahead

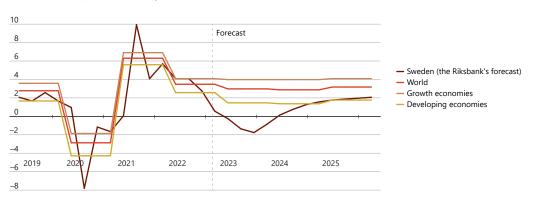
A clear slowdown in economic activity began at the end of last year and is expected to continue well into 2024. A recovery is not anticipated until towards the second half of the year, but only to a modest extent. Unemployment is therefore expected to see a slight rise, but not to the same extent as is usually the case in an economic downturn.

Offsetting this, falling inflation will mean that incomes will increase in real terms. This helps households and is expected to happen in the first half of the year. With continued falling inflation and weaker economic activity, the central banks can therefore begin easing their strict monetary policies. This could happen as early as late spring. Both factors will mean that the economic downturn will not be as deep. However, the Swedish economy will be affected slightly more due to higher indebtedness, with mostly variable mortgage rates. Companies focused on housing investments are also weighing on performance and hampering growth, which is why the Swedish economy is expected to stagnate or shrink slightly.

INFLATION (CPI, ANNUALISED), %



GDP GROWTH (ANNUALISED), %



Source: IMF's and the Riksbank's forecasts

Overview

About Andra AP-fonder 2023 in brief Long-term mission Macro and market CEO's review

Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Financial statements and notes



Eva Halvarsson CEO, Andra AP-fonden

A strong result contributes to a sustainable pension system

2023 was an eventful year, both on the markets and here at AP2. Inflation and interest rates peaked in the summer and then fell in the latter part of the year, which contributed to a strong finish. For AP2 internally, the year featured additional cost reductions and extensive efforts to redesign management and the organisation to better respond to a changing operating environment.

Our total return for 2023 was 6 per cent (excluding expenses). After deductions for net outflows to the pension system amounting to SEK –4.8 billion, the Fund capital increased to SEK 426 billion. This is due to a positive performance of primarily Swedish and foreign developed equity markets, while we had a negative performance mainly within our real-estate investments.

Developing operations

Work at the Fund during the year has largely focused on developing operations. Naturally we have always devoted time and energy to continually improving the organisation, but in 2023 we worked together, employees and the Board, to look at all aspects of operations. We reviewed our asset management strategy, with the aim of generating a better return using a more dynamic and efficient approach. This means that we are changing our

management structure, organisation, investment beliefs, vision and values, and everything will be implemented at the start of 2024.

One change that we introduced means that the Fund will be working more with a dynamic asset allocation approach, i.e. positioning ourselves more actively in response to trends and changes in our operating environment, with a time horizon of five to ten years. Each market positioning, including those that are passively selected, involves risk-taking. With the new approach, we will continually evaluate and be even more active in managing the risks that we take. Meanwhile, we will increase our focus on our total return. Since risk is the primary tool we have to generate a return, we can use this change to further improve the risk-adjusted return.

Adding dynamic asset allocation

We have allowed work on revising our asset management strategy to take the time needed, and it has involved many of our employees and the Board, which means we have ensured that our overall strategy is coherent. We will benefit from this work going forward, and we intend to keep the collective discussions we have had both relevant and current.

One specific example of change is the way we organise asset management. Previously it was carried out based on management style and asset class, but from now on it will be organised exclusively according to asset class. This means, for example, that our traditional, fundamental management of Swedish equities, quantum management of

Overview

About Andra AP-fonde 2023 in brief Long-term mission Macro and market

CEO's review

Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report

Financial statements and notes

equities on both developed and emerging markets, and investments in global private equity funds will now be organised under the single umbrella 'Equities'. Some of our employees have been working for the Fund for many years and gathered a great deal of know-how and experience in their respective fields. By working more broadly together, our aim is for lessons learnt and synergies between the various management styles to contribute to an even better performance.

Although the changes we are making may on the surface seem significant, it is important to point out that we have no plans to throw the baby out with the bathwater. It is all about evolution, not revolution. We are still maintaining a long-term, sustainable approach, and the day-to-day work of managing investments will remain the same. We are adding a new perspective via dynamic asset allocation to make better use of our risk mandate and to improve the Fund's risk-adjusted return.

Reduced costs

One further change that affected 2023 was our efforts to cut costs. Before the start of the year, the Board decided to reduce the total cost budget by 16 per cent, which is a result of our decision to bring most of our externally managed mandates in-house, and to discontinue management of Chinese A shares. We have been able to achieve this without any additions to our internal resources.

Relocating our office to new, smaller premises will also bring about a cost reduction.

Ending the Chinese portfolio exposure

In the latter part of the year we also decided to divest the remainder of our listed equities' exposure to China and Hong Kong.

The decision to reduce and in 2024 completely discontinue our Chinese exposure was supported by the country framework that we use to evaluate

which countries we invest in. The country framework helps us identify countries where there are financial, operational or sustainability reasons not to invest. For example, the framework meant that we withdrew investments from Russia long before Russia's attack on Ukraine, and we have now decided to discontinue all listed investments in China. Fundamental to our country framework is that the excess return we may receive must justify the operational challenges that exist, and that we are able to manage the sustainability risks that are primarily associated with human rights. If, despite challenges, we decide to continue to invest, we must have an active plan for bringing our influence to bear. Previously, investing all over the world was a natural choice in order to diversify our exposure. Geopolitical developments suggest that this is not necessarily the case any longer. Looking ahead, our portfolio is likely to be concentrated on fewer markets.

Supporting the transition

Climate and other sustainability issues, such as human rights and biodiversity, have increasingly moved up the agenda in recent years. Sustainability has now taken centre stage after having, for some, been more of a side issue, and politicians, investors and company management have had a wake-up call. If we are to cope with the global challenges facing society, we need significant measures of various kinds. Many companies and investors, including AP2, have made major adjustments to their operations in order to support the essential transition. From this perspective, it is frustrating at times that so few policy decisions are being made to help push things in the right direction.

Politics is the tool we have to help determine the direction of our societies. It should therefore be leading the way, so that businesses and investors can follow suit and make the transition happen via investments and upscaling of new technology. We may have varying views on the details, but the US

Inflation Reduction Act, in that sense, is an interesting example, with the wave of investments that it has triggered.

Keeping pace with change

Another aspect of our organisational development has been within Al. For many years now we have been using Al in areas of our quantum management. Some of the work we have been doing during the year has involved looking at how we can make use of Al in other parts of the Fund. From some 40 suggestions submitted by our employees, we have decided to go ahead with two projects that are outside asset management. It will be exciting to see how we can continue to streamline and make improvements aided by Al technology.

Conditions for being an exemplary asset manager are changing, and we need to change too. As they say, change is the only constant. During the pandemic, we changed our way of working and started

working from home. This has been a popular move, and many of the Fund's employees now work from home two days a week. In the first week of 2024, we adapted to these circumstances by relocating to new, smaller premises that are better suited to our needs.

Given the many and varied changes we have implemented in 2023, I believe we are now better equipped than ever before for the mission we have been given by the Swedish Parliament, and ultimately Sweden's ten million inhabitants, namely to be of the greatest possible benefit to the Swedish pension system. 2023 was largely about preparations; 2024 will put them to the test.

That said, I would like to extend a huge thank-you to all our employees and the entire Board for the dedication they have shown when it comes to the direction of our future development. Together we can make AP2 stronger!

Eva Halvarsson, CEO at Andra AP-fonden

We are adding a new perspective via dynamic asset allocation to make better use of our risk mandate and to improve the Fund's risk-adjusted return.

Focus going forward

Given the many and varied changes we have implemented in 2023, I believe we are now better equipped than ever before for the mission we have been given by the Swedish Parliament, and ultimately Sweden's ten million inhabitants, namely to be of the greatest possible benefit to the Swedish pension system. 2023 was largely about preparations; 2024 will put them to the test.

FIND OUT MORE ON PAGE 18

Overview

About Andra AP-fonder 2023 in brief Long-term mission Macro and market

CEO's review

Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Financial statements and notes



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 84 per cent of 'contribution assets', with the remaining 16 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.

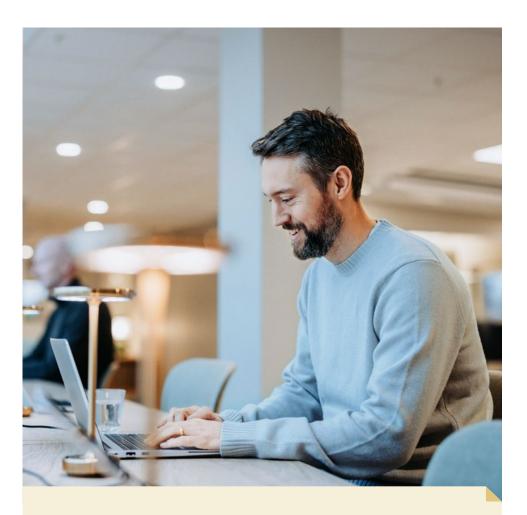
Mission

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 places less stringent demands for a high return in the AP Funds, and vice versa.

Exemplary management means that both 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.

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



Working together to achieve our goal

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

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

FIND OUT MORE AT WWW AP2

Overview

Mission and organisation

Mission, goal and vision

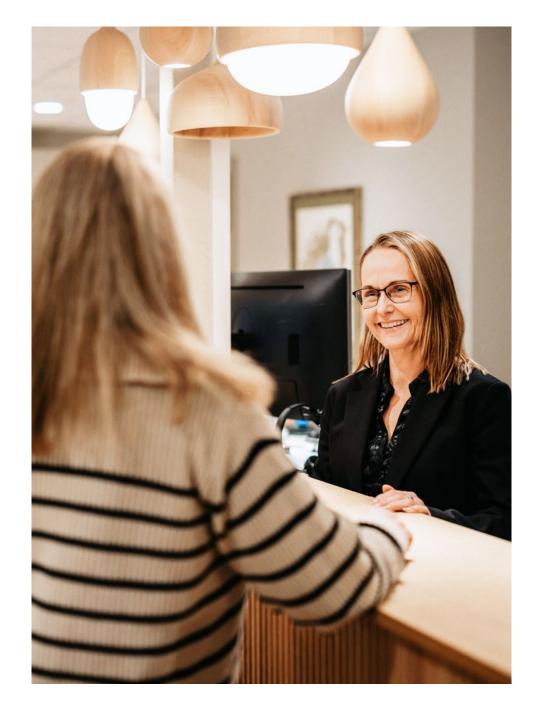
Fund capital built on human capital

Investments

Sustainability

Fund governance

Directors' Repor



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 should gain an overview of the needs of the pension system during this period of time, and then select the sustainable strategic portfolio that is assessed to best fulfil these requirements. Find out more about this work in 'Experts in the pension system' on pages 19–20.

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 10 years, AP2 has generated a return of 92.4 per cent, corresponding to an average annual return of 6.8 per cent. Adjusted for inflation, this corresponds to a real annual return of 3.9 per cent. The real return in 2023 was 1.4 per cent.

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.

ANDRA AP-FONDEN'S VISION

Leading pension manager in a changing world

Overview

Mission and organisation

Mission, goal and vision

Fund capital built on human capita

Investments
Sustainability
Fund governance
Directors' Report



Fund capital built on human capital

Andra AP-fonden's ability to recruit and develop employees who contribute to the organisation is crucial to the Fund's efforts to achieve its long-term objectives. There is therefore a strong focus on the internal culture and effective 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 places high demands on the employees' expertise and judgement. In addition, the Fund has the vision of being a leading pension manager in a changing world, which requires dedication, commitment and responsibility. For the organisation to function at its best, the Fund must motivate all employees to achieve good results.

In 2023, AP2 carried out a review of its asset management strategy, which has also resulted in improvements to the Fund's working approaches in response to a changing world. To adapt the organisation to the new strategy, the Fund has decided to reorganise asset management, and this will come into effect at the beginning of 2024.

Strategy

One element of AP2's long-term strategy is to continuously develop increasingly organisational and cost-effective asset management. The Fund's ability to attract, retain and further develop competent and committed employees is crucial to driving development in accordance with the strategic plan and achieving established goals.

Continuing professional development is an important element of the Fund's human relations and all employees are offered continuous development within their respective areas. There is also extensive internal sharing of expertise.

AP2 shares a considerable amount of expertise externally with other investors 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.

Importance of culture building

To lay the right foundation, AP2 focuses heavily 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. Great importance is placed on managers being role models and acting accord-

Overview

Mission and organisation

Mission, goal and vision

Fund capital built on human capital

Investments

Sustainability

Fund governance

Directors' Repor

ing to a clear set of values, which in the Fund's case are based on the values that were updated during the year: results-driven, committed, responsible and transparent.

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, so that work can be combined with family responsibilities. Five of the Fund's employees took parental leave during 2023.

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 who are seeking employment to match their skills. Mitt Liv also provides training for the Fund's employees in diversity and inclusion.

Health protection

AP2 conducts systematic occupational health and safety measures in order to minimise the risk of ill health.

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 therefore offered a fitness activity subsidy and regular medical check-ups.

Remuneration

To be able to recruit and retain the right staff, AP2 seeks to offer remuneration at a level that is consistent with the industry at large. An independent party generates annual comparative statistics for individual positions held at relevant and comparable organisations in the financial industry.

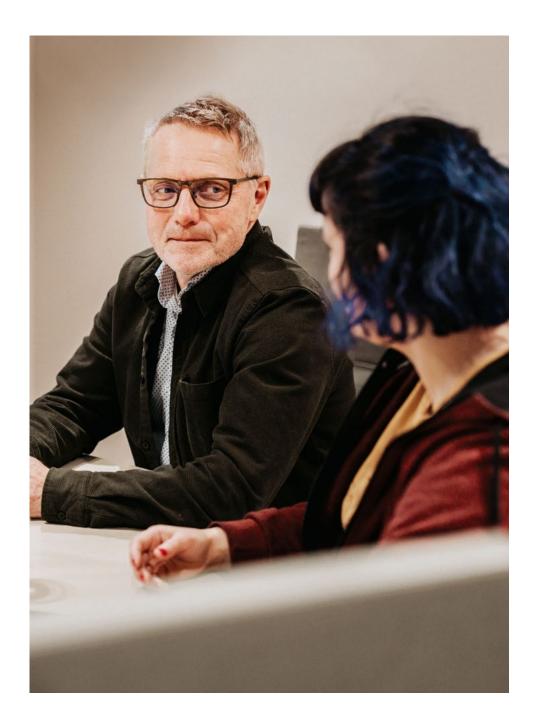
The principle is that the Fund's remuneration should be close to the median for the reference group. Find out more about remuneration on pages 76–77.

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').

Metrics and targets

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

Employees' performance and potential are analysed at annual employee appraisals. To identify focus areas that are expected to improve employee satisfaction and commitment, the Fund conducts regular employee surveys.



Overview

Mission and organisation

Mission, goal and vision

Fund capital built on human capital

Investments

Sustainability

Fund governance

Directors' Report

Financial statements and notes



New strategy brings active and dynamic approach

After nearly two years at Andra AP-fonden, it's time for Chief Investment Officer Erik Kleväng Callert to begin implementing the changes that the organisation has been collectively working on.

"The idea is for us to be more quick to act and to be dynamic. But we're talking about evolution, not revolution," says Erik.

The Fund's overall return for 2023 was consistent with long-term expectations.

"The listed asset classes within the equity and fixed-income portfolios took off at the end of the year, when the central banks indicated a shift towards an easing of monetary policy, and exceeded expectations. We've also been quite successful with our active asset management, which has contributed to the positive result," explains Erik Kleväng Callert.

The reported return on the Fund's unlisted holdings was lower than expected; real estate lost value and private equity funds were treading water.

"The rapid revaluation of risk assets that we saw at the end of the year we haven't yet seen in our unlisted holdings," says Erik.

There are changes ahead. The investment strategy has been updated, which will mean new structures for the organisation, decision making and the portfolio.

"It's a project that has involved the entire organisation. We've asked ourselves what we're doing well, and where there's room for improvement. Two overarching objectives have emerged. We need to be better at quickly understanding and responding to changes in the wider world, and as an organisation, which includes all our employees, we need to continue to take clear ownership to achieve our shared goals," continues Erik.

To achieve this, AP2 intends to work more actively with dynamic asset allocation, i.e. what the Fund chooses to invest in and what it avoids over a five to ten-year perspective. If the expected return is looking poor in a particular area, the Fund will opt to invest in something else, and vice versa.

Strategic allocation, or the overall long-term composition of the portfolio, is determined by the Board. There is room to manoeuvre within the existing framework, which the Fund should make full use of.

"We should be able to exit markets and countries and instead invest where we can see greater potential. In the past we lacked the structures to regularly evaluate our allocation. We're changing that now, and introducing an allocation department with responsibility for making and implementing allocation decisions," explains Erik.

"Greater opportunities to choose and avoid will lead to a more holistic approach to the portfolio," says Erik. If the focus previously was more on outperforming the benchmark index based on a fixed allocation, the focus now is more about how best to contribute to achieving the Fund's overall goal.

"There are 69 of us, all dedicated employees monitoring developments in our operating environment, which means we are well equipped to respond to the changes taking place. It could be that we pay closer attention to trends, such as the global aging population, deglobalisation or the climate transition. All this creates opportunities for a more dynamic approach," says Erik.

And the changes don't stop with a new allocation department. Structures in the organisation, the portfolio and decision paths have also been adjusted to increase ownership for the portfolio. One ambition has been to avoid unnecessarily complex systems.

"We will focus on areas where we can make a difference. Not just add, but also remove. We have excellent partners in unlisted assets, who we plan to continue working with. In terms of listed assets, we have considerable confidence in our own ability to generate added value in a cost-effective way," says Erik.

The Fund's values and investment beliefs have also been reviewed. The ten beliefs have been condensed to six, to make them more relevant and vivid in day-to-day operations, according to Erik.

While there are many changes being introduced, there is also much that will stay the same. Thorough analyses and decision-making documentation will still be essential. The fundamental ALM analysis will remain, as will the portfolio's long-term risk level. Sustainability, and contributing to a sustainable society are still extremely important.

"Our mission is to conduct exemplary asset management and to contribute to sustainable development. That hasn't changed. We will simply be a little more agile and work together to achieve our shared goals," concludes Erik Kleväng Callert.



Overview

Mission and organisation

Investments

Interview with Chief Investment
Officer

Experts in the pension system Pension system development

nvestment strate

Assets

Sustainability Fund governance

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, AP2'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 contrib-

ute to growth in the assets at an adequate rate, based on the system's requirements.

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 the right 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 development, which carries significant weight, macroeconomic variables such as employment rates, economic growth and income development are key elements of the ALM analysis. This is how assessments of expected future returns and risk, and the mutual correlation between asset classes and 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.

AP2 annually reviews the assumptions on which the ALM analysis is based. The assessment is

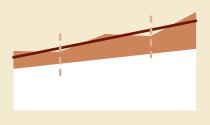
The ALM model

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 are greater than the liabilities, the brake will not be activated.



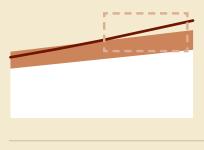
IDEAL SCENARIO

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

Overview

Mission and organisation

Investments

Interview with Chief Investment
Officer

Experts in the pension system

Pension system developmen

Investment strategy

Assets

Sustainability

Fund governance

Directors' Report

Financial statements and notes

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 these contributions exceed the disbursements, the surplus is transferred to the buffer funds for investment. In the same way, money is transferred from the buffer funds if disbursements exceed contributions. When the system was set up in 2001, contributions exceeded pension disbursements. 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 2023, AP2 has had a net outflow of around SEK 61 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. Until just a few years ago, AP2's simulations showed that the brake could be expected to be applied regularly during the next 30 years. The latest simulations now show a significantly 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 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 64.8 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.

AP2 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. All other things being equal, 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.

Another challenge is possible changes to the pension 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 would 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 on the pension system.

Find out more in the Investment Strategy section on pages 22–25.



Experts in the pension system Pension system development Investment strategy

Assets

Sustainability
Fund governance
Directors' Report
Financial statements and notes



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

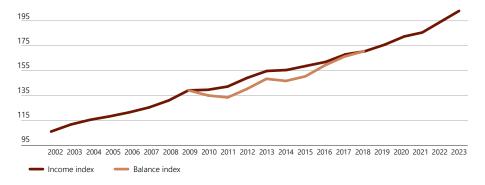
of decades, which means that the buffer capital will continue to be used to cover the difference.

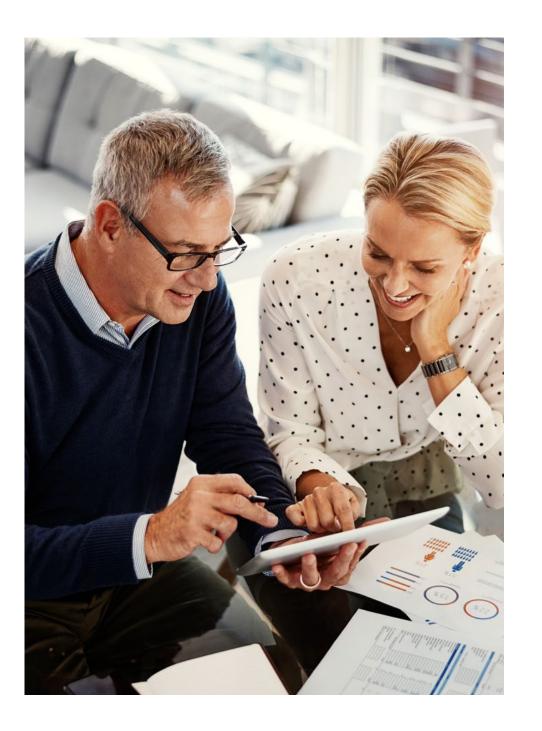
Automatic balancing

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 1.1295 in 2022.

BALANCE INDEX DEVELOPMENT





Overview

Mission and organisation

Investment

Interview with Chief Investment

Experts in the pension systen

Pension system development

Investment strategy

Asset:

Sustainability

Fund governance

Directors' Report

Financial statements and notes



The best investment strategy for fulfilling the mission

Andra AP-fonden's asset management is geared to the needs of the pension system and puts sustainability front and centre. The Fund achieves the expected return required, primarily by exposing the Fund capital to various market risks.

AP2'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. The analysis of the pension system's 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 19–20.

An effective portfolio is a portfolio that generates the highest possible expected return for a given level of risk. The return on different types of assets is not perfectly correlated. For example, in extreme cases this can mean that returns on bonds can 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.

Systematic and active risk-taking

AP2 achieves the expected return required to meet the needs of the pension system by, in the first instance, exposing the Fund capital to various 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 stage is to choose strategies within each asset class. For liquid listed asset classes, indices are selected that specify how underlying securities should be effectively weighed together. For illiquid unlisted asset classes, strategies are formulated that form the basis of the investments made. AP2 has long chosen not to manage all asset classes on the basis of traditional maket-value-weighted indices. Instead, the Fund has chosen indices that are based on a selection of other factors besides market value, and which

Overview

Mission and organisation

Investment

Interview with Chief Investment Officer

Experts in the pension system

Pension system developmen

Investment strategy

Assets

Sustainability
Fund governance
Directors' Report

Financial statements and notes

give broader exposure to various systematic risk premiums. This means that equities in small companies and 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.

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

Besides the return from long-term systematic risk-taking, additional added value is generated by active management, which means investment decisions between and within each asset class that lead to the final portfolio deviating from the selected indices. 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 main-

tains a strong focus on cost-effective management. This is why the majority of asset management takes place in-house, a total of 79 per cent of the capital. The Fund uses external managers primarily for illiquid asset classes.

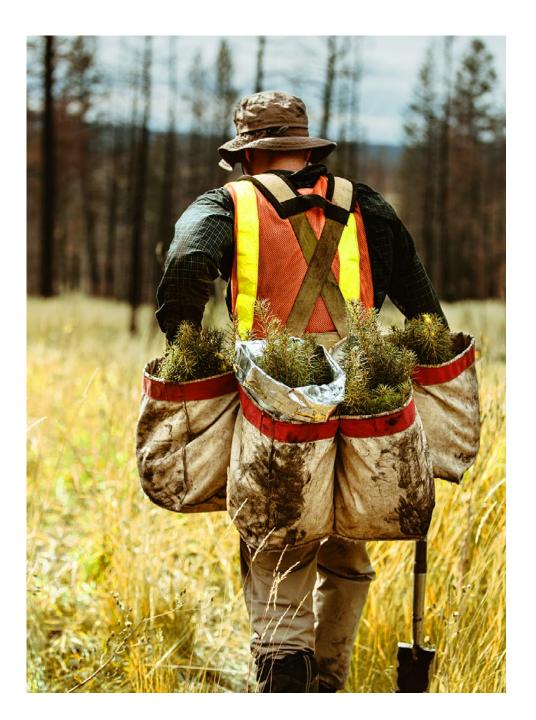
Integration of sustainability

Since sustainability is important for the Fund's return, it is also key to the strategy and for investment decisions at all levels. Sustainability is 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.

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 foreign equities and corporate bonds that are in accordance with the criteria for the EU Paris-Aligned Benchmark. Find out more in the Fund's Sustainability Report, www.ap2.se. The Fund's management of bonds in emerging economies is also based on indices with sustainability characteristics.

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

Within active management, sustainability is also an integral element of the investment process. For example, sustainability factors have long



Overview

Mission and organisation

Interview with Chief Investment Officer

Experts in the pension system

Investment strategy

Assets

Sustainability
Fund governance
Directors' Report



Andra AP-fonden's sustainability focus areas

- 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.

FIND OUT MORE AT WWW.AP2.SE

been part of the model-based active management of global equities.

AP2 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 operations related to tobacco and nuclear weapons, 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.

Sustainability focus areas

AP2 has identified five focus areas for its sustainability work; see box on the left. 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 longterm engagement, which is deemed essential in order to achieve results. In each area, a strategy is drawn up based on a method.

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

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 sections. 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.
- Materiality AP2 focuses its work on the most important issues and areas where the Fund can make the biggest difference.
- 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.

Overview Mission and organisation Investments

Interview with Chief Investment Officer

Pension system development

Investment strategy

Asse

Sustainability
Fund governance
Directors' Report
Financial statements and notes

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 comprise 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 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 endeavour

to reduce the risks identified in the portfolio. Find out more about impact risks on page 61.

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. The basic portfolio is made up of 75 per cent global equities and 25 per cent Swedish bonds.

In 2023, 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.

Development of the strategy

During the year, a number of the Fund's employees were involved in a project to further enhance the Fund's investment strategy. One of the aims was to simplify and increase flexibility in the decision-making structure. The reason for doing this was to help AP2 respond to an ever-changing operating environment, and in the longer term to improve the Fund's contribution to the development of pension disbursements. A clearer division of responsibilities, from Board down to individual portfolio managers will aid both decision making and follow-up. A broader mandate from the Board to the organisation, with clear goals linked to the total portfolio, is believed to increase

opportunities in the medium term to proactively adapt the portfolio to conditions in the operating environment. Another aim was to harness the substantial in-house expertise via greater cooperation within the Fund.

The new investment strategy will be implemented at the beginning of 2024.

BENCHMARK INDEX FOR THE LISTED STRATEGIC PORTFOLIO, 31 DECEMBER 2023

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



Overview

Mission and organisation

nvestments

nterview with Chief Investment Officer

Experts in the pension system

Pension system development

Investment strategy

Assets

Sustainability

Fund governance

Directors' Report

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.

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** SHARE OF PORTFOLIO ALLOCATION BY REGION Share of portfolio/ ALLOCATION BY REGION Asia, 35% countries North America, 32% Europe (excl. Sweden), 17% Weight total, 31% Sweden, 96% Foreign shares, 8% Other, 8% Other, 69% Europe, (excl. Sweden), 3% Other. 92% South America, 5% Other, 1% Oceania, 2% Sweden, 1% • In-house, quantitative management of foreign equities by using statistical analysis to identify The Fund's management of Swedish equities is based on three mandates: one for large companies Asset management characteristics, called factors, in companies that either individually or together with others can that has an investment universe of around 80 companies; one for small companies that has around strategy indicate future returns. 270 companies, and a mandate that invests in cleantech companies. The asset management team • The Fund uses sustainability factors in its management, which generates healthy returns for penbases its selection of companies on an internally-developed fundamental analysis. This involves sioners and promotes sustainable development. careful analysis of a company's accounts, business model, markets and future outlook. When the Fund's view of an equity deviates from the market's view, this is expressed by overweighting or underweighting the equity compared with the benchmark index. The foreign equity portfolio for developed markets generated a return of 13.0 per cent. The foreign The Swedish equity portfolio generated a return of 18.6 per cent. The Swedish equity portfolio out-Return equity portfolio for emerging markets had a return of 10.8 per cent. The foreign equity portfolio performed the benchmark index by 1.8 per cent. outperformed the benchmark index by 0.05 per cent. Integration of sus-· Multi-factor indices, developed in-house, with sustainability characteristics for the foreign share-• When analysing companies, sustainability factors are considered and how they may affect both holdings. The sustainability factors to which the indices have had the greatest exposure are those the company's valuation and revenue in the long term. tainability linked to a number of environmental, social and corporate governance factors. This means that · Portfolio of cleantech companies. equities in companies that have a good ESG profile have received a higher index weight. • Does not invest in companies on the Fund's exclusion list. · Multi-factor indices, developed in-house, for foreign equities that are in line with the EU Paris-· Works in nomination committees. Aligned Benchmark (PAB). · Voting at general meetings. • Evaluates and imposes requirements on external managers' sustainability work. · Does not invest in companies on the Fund's exclusion list. · Voting at general meetings. Highlights 2023 · AP2 hosted a conference on the PAB indices, at which regulators, index designers and asset manag-• Initiated work to adjust the portfolio to net zero emissions. Using IIGCC's framework and its defined ers discussed the best way to measure and integrate data on carbon emissions into the indices. forward-looking adaptation criteria, together with the portfolio's emissions figures, the Fund will assess whether a company has a credible plan to adapt to net zero and then categorise companies • During the year, the Fund further developed the multi-factor index for foreign equities as part of its

according to a 'maturity scale'.

Overview

Mission and organisation

nvestments

Interview with Chief Investment
Officer

Pension system development
Investment strategy

Assets

Sustainability
Fund governance
Directors' Report
Financial statements and notes

strategy work.

Assets

Fixed-income securities Alternative investments Investments in unlisted real estate (including timberland and farmland real estate), private equity Area of responsibility Active management of fixed-income securities. funds, sustainable infrastructure, alternative risk premiums and private debt. Share of portfolio/ SHARE OF PORTFOLIO ALLOCATION BY REGION SHARE OF PORTFOLIO ALLOCATION BY REGION North America. 28% North America, 44% countries Europe (excl. Sweden), 26% Sweden, 18% Sweden, 20% Europe (excl. Sweden), 16% Weight total, 27% Weight total, 34% South America, 10% Asia, 8% Other, 73% Other, 66% Asia. 8% Other, 7% Other, 7% Oceania, 3% Oceania, 1% South America, 3% Asset management In-house management of Swedish and foreign fixed-income securities, including the Fund's invest-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 ments in green and social bonds. strategy 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 5.3 per cent, and emerging market fixed-in-During the year, alternative investments generated a return of -3.8 per cent (-3.2 per cent including come securities 11.8 per cent. Foreign government bonds had a return of 1.0 per cent. Foreign credcurrency hedging). its generated a return of 6.2 per cent, and green bonds 6.9 per cent. Integration of sus-• Sustainability is an important theme in fixed-income management, and besides the investments in • Sustainability is integrated into all areas within alternative investments. green bonds, the Fund is an active investor in bonds with other sustainability characteristics, such • Evaluates and imposes requirements for managers, funds and joint investment companies. tainability as social bonds. • Continual follow-up of sustainability throughout the investment's lifespan. • Does not invest in companies on the Fund's exclusion list. Highlights 2023 • The focus on active fixed-income management made a positive contribution to the return, despite a • Timberland and farmland investments have continued to generate an attractive return. In 2023, the volatile and challenging market. Fund's return on investments in farmland was 5.5 per cent (6.2 per cent including currency hedging). The return on investments in timberland was 6.7 per cent (8.2 per cent including currency hedging). • The shift in interest rate levels boosts the attractiveness of bonds as an asset class. • At the end of 2022, a decision was made to increase exposure to ILS (Insurance-Linked Securities) in · Continued high ambition and focus on integrating sustainability factors in the bond portfolios, with light of the market situation. This strategic decision has produced good results, and the return for ILS follow-up and feedback on actual impact. in 2023 was 12.0 per cent (13.0 per cent including currency hedging). • Initiated work on a net zero framework for government bonds. · Continued establishment of private debt also generated an attractive return of 5.0 per cent (5.5 per cent including currency hedging) during the year. · Chinese A-shares were divested during the year.

Overview

Mission and organisation

Interview with Chief Investment
Officer

Pension system development
Investment strateav

Assets

Sustainability
Fund governance
Directors' Report
Financial statements and notes





Detailed sustainability information

Andra AP-fonden's sustainability work emanates from the Fund's mission and involves a long-term approach to protect and build value – from an economic, environmental and social perspective.

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

Actively working with, and integrating sustainability into the Fund's activities enables us to create and protect value, as well as promote sustainable development.

Sustainability work is pursued based on the principle of 'double materiality'. This means that continued consideration is taken 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.

Significant events during the year Climate

- Climate plans have been defined for further asset classes, including a process for the Fund's investments in Swedish equities, with a detailed analysis and monitoring of companies' transition to net zero emissions.
- Continued development of the Fund's reporting, including emissions data for additional assets and Scope 3.

Biodiversity

- Focus on deforestation, with an analysis of the Fund's risk exposure within holdings in listed equities, credits, real assets and private equity.
- Engagement via Finance Sector Deforestation Action, where AP2 is leading several dialogues, and Investor Policy Dialogue on Deforestation, where the Fund participates in the working group for Brazil.
- Collaboration with Climate & Company to develop a tool focused on analysis of deforestation risk.
- Reporting in spring 2024 according to recently introduced framework Taskforce on Naturerelated Financial Disclosures (TNFD).

Overview
Mission and organisation
Investments

Sustainability

Detailed sustainability information

Summary of information within focus areas

social conditions

Sustainability data

Signatures and statemen

Fund governance
Directors' Report
Financial statements and notes

Human rights

- Continued implementation of the UN Guiding Principles within all asset classes, including analysis of the Fund's private equity holdings.
- Engagement via company dialogues, with a focus on risks in China and the textile and mining industries. Also extended to the value chain for renewable energy during the year. Collaboration in some of these dialogues via Platform Living Wage Financials and PRI Advance.

Diversity, equity and inclusion

 The Fund's Index of Female Representation for 2023 indicates that the proportion of female board members in companies listed on Nasdaq Stockholm is continuing to increase, and now totals 36.1 per cent, which is the highest recorded level since the survey began.

Corporate governance

- Increased voting in companies. The Fund has voted in 87 per cent of the Swedish equity portfolio and 76 per cent of the foreign equity portfolio.
- Dialogues with several Swedish companies regarding incentive schemes. The dialogues have chiefly focused on the absence of performance-related targets and sustainability targets.

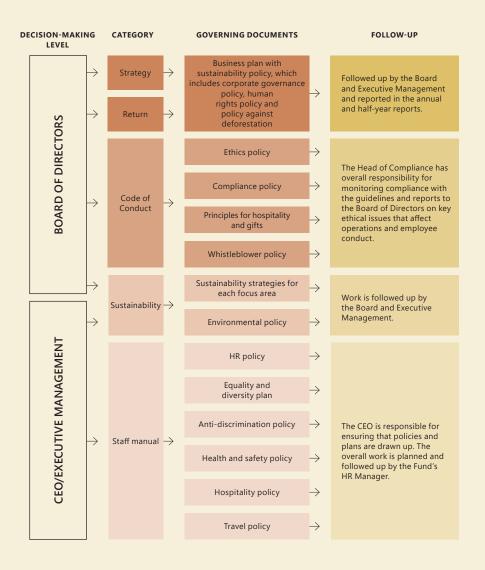
Guiding documents for sustainability work

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 to the right). 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. PRI carries out an annual survey, in which all signatories report on how they are implementing the principles. The Fund's response to the survey is available on PRI's and AP2's websites. The Fund also follows the PRI guidelines for responsible investment in farmland. These guidelines were drawn up in 2011 by AP2 and a group of international investors.

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



Overview

Mission and organisation

investments

Sustainability

Detailed sustainability information

Summary of information within focus areas

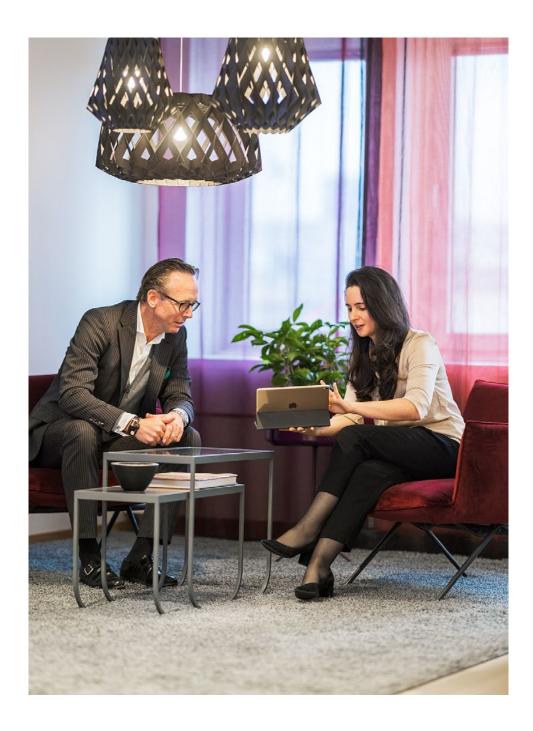
Human rights and

Sustainability data

Signatures and statement

Fund governance

Directors' Report



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 at the latest. 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' mission 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 AP2's reporting in line with SFDR on the Fund's website.

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, head of the strategy department and senior sustainability strategist are responsible for the strategic sustainability work and for implementa-

tion 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.

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 often coordinated via 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, which 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 holdings in equities and corporate bonds, 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.

Overview
Mission and organisation
Investments
Sustainability

Detailed sustainability information

Summary of information within focus areas

social conditions
Sustainability data

Fund governance
Directors' Report
Financial statements and notes

Find out more about the work of the Council on Ethics in the Fund's Sustainability Report and at www.etikradet.se.

Collaboration with other investors

In addition to working collaboratively with the other AP Funds in the Council on Ethics, AP2 collaborates with other Swedish and international investors. The Fund is also a member of, and supports 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.

Anti-corruption work

AP2 takes a proactive approach to preventing the risk of corruption, and does not tolerate any form of corruption under any circumstances.

In 2020, AP2, 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. 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, AP2 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.

AP2'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 decision-making documentation on the fund companies in which AP2 intends to invest.

Risk management

The purpose of the Fund's Anti-Money Laundering policy is to set down AP2's principles for managing the risks of financial violations, including money laundering, financing of terrorism and breach of sanctions. The purpose of the internal regulations is to reduce the risk of sanction breaches, or that AP2 is involved in or is used for money laundering or financing of terrorism, or that AP2 commits money laundering offences, and to reduce the risk of breach of contracts in cases where AP2 has undertakings concerning these areas.

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

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.

The Fund had no cases of corruption in 2023.



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.

Overview
Mission and organisation
Investments
Sustainability

Detailed sustainability information Summary of information within focus areas

Human rights and social conditions
Sustainability data
Signatures and statement

Fund governance
Directors' Report
Financial statements and notes

Summary of information within the focus areas

Climate and nature report 2023 according to TCFD's and TNFD's frameworks

Andra AP-fonden is publishing a combined report for 2023 according to the framework launched during the year: Taskforce on Nature-related Financial Disclosures (TNFD) and Task Force on Climate-related Financial Disclosures (TCFD). The Fund advocates standardisation of reporting and transparency around climate and nature-related risks and opportunities. Andra AP-fonden has therefore opted to report in accordance with these leading frameworks. The table below provides a summary. The full report will be published at www.ap2.se in the spring, TNFD and TCFD stipulate reporting of a number of indicators (column on the far left).





TNFD

INDICATORS ACCORDING TO FRAMEWORKS

REPORTING

Governance

- a) The Board's oversight of climate and nature-related impacts, dependencies, risks and opportunities.
- b) Management's role in assessing and managing climate and nature-related impacts, dependencies, risks and opportunities.
- c) Human rights policies, oversight and engagement activities in relation to nature, indigenous people and local communities.

AP2's Board receives regular information on the Fund's sustainability work, which includes climate and nature-related issues. The Board has an opportunity to discuss this under a standing item at every meeting.

TCFD

All senior executives have a responsibility to take climate and nature issues into account according to their various roles. Since AP2 is a small organisation, where several senior executives are directly engaged in sustainability work, Executive Management is familiar with the work that is being done. The Fund thus has good opportunities to assess and manage climate and nature-related risks and opportunities.

AP2's work is based on the Fund's human rights policy. The Fund has undertaken to adhere to the UN Guiding Principles on Business and Human Rights. This is ensured by the Board and Executive management in the same way as the Fund's work on climate and nature-related issues, as described above. AP2's policy against deforestation also covers the rights of indigenous people, and defines the Fund's expectations of companies. These form the basis of the Fund's engagement regarding deforestation, and include the rights of indigenous people and local communities, including the right to land and to free, prior and informed consent. AP2 also has zero tolerance of threats and violence directed at environmental and human rights campaigners.

Overview

Mission and organisation

Investment

Sustainability

Detailed sustainability informatio

Summary of information within focus areas

Human rights and

Sustainability date

Signatures and statement

Fund governance

Directors' Report







INDICATORS ACCORDING TO FRAMEWORKS

REPORTING

		TNFD	TCFD	
Strategy	a) Climate and nature-related impacts, dependencies, risks and opportunities that AP2 has identified in the short, medium and long term.	AP2 has analysed the portfolio's impacts, dependencies, risks and opportunities using the ENCORE database, focusing on sectors that TNFD considers to be high risk. The Fund's analysis indicates that the food and beverage sector, forestry and paper and energy should be prioritised in AP2's investment strategies and engagement work. AP2 has also identified land use as the most significant reason for the Fund for loss of biodiversity. Impacts, dependencies and opportunities are relevant in all time perspectives, while risks are expected to primarily materialise in the medium to long term.	In the short term, AP2's investments are deemed to have a low climate risk and there are significant opportunities for investments within the transition. However, in the medium and long term, climate risks are expected to increase and may have a substantial impact on the long-term return. This mainly applies to physical climate risks, specifically flooding, extreme heat and forest fires.	
	 b) Effects of climate and nature-related risks and opportunities on AP2's investment strategies. 	Climate change has a significant impact on the ALM analysis – the Fund's tool for producing the most relevant strategic portfolio. In practice, the integration of asset management involves three approaches to sustainable investment for nature and the climate: 1) Invest in solutions via targeted sustainability investments. 2) Support change via a long-term approach and engagement as an active owner. 3) Divest from undesirable exposure by selective divestment from assets with high and persistent risk.		
	c) Resilience of AP2's strategies to risks and opportunities in various climate and nature-related scenarios.	An initial scenario analysis has been conducted in line with TNFD's recommendations. A combination of serious degradation of ecosystems and poor coordination between various operators is considered more likely than the more optimistic scenario, with limited degradation and strong coordination. This would bring a high risk of both physical and transition risks, which are difficult to assess and quantify at present. AP2 will therefore continue to analyse its holdings, using a science-based approach, to gain a better understanding and be able to manage these risks.	AP2 has carried out an overall scenario analysis, in which physical and transition risks have been estimated based on two scenarios: one scenario with an organised transition and global warming of 1.5 degrees, and one with a disorganised transition and global warming of 3 degrees. In both scenarios, the physical risks are significantly higher for the Fund than the transition risks. AP2's estimated transition risks are much lower than for a comparable global equity index (MSCI ACWI), because the Fund has worked on adapting its portfolio to climate change and has developed a portfolio that is consistent with the Paris Agreement. According to the analysis, the main physical risks for the Fund's listed equities are extreme heat and flooding. The Fund will continue with its efforts to understand and manage these risks.	
	d) Locations of operations and of assets and activities in AP2's portfolio.	AP2's own operations are based in Gothenburg, and the Fund employs around 70 people. The Fund has a significant geographical exposure via its global investment portfolio. Efforts to analyse this are ongoing, but it is challenging work in terms of access to, and quality of data relating to, companies' supply chains. According to TNFD's framework, the Fund has assets in two sensitive geographical areas via its farmland investments. These are in Brazil and California. They account for around 1.3 per cent of the Fund's total assets.		

Overview

Mission and organisation

Investment

Sustainability

Detailed sustainability information

Summary of information within focus areas

Human rights and social conditions

Sustainability data

Signatures and statemer

Fund governance





TNFD

INDICATORS ACCORDING TO FRAMEWORKS

REPORTING

Risk	man-
ager	nent

a) Processes for identifying and assessing climate and nature-related impacts, dependencies, risks and opportunities in the portfolio*.

b) Processes for managing climate and nature-related impacts, dependencies, risks and opportunities.

 c) Integration of climate and nature-related risks in overall risk management.

Metrics and targets

 a) Metrics used to assess climate and nature-related risks and opportunities.

b) TCFD: Greenhouse gas reporting according to Scopes 1, 2 and 3. TNFD: Metrics used to assess and manage nature-related impacts and dependencies.

c) AP2's targets for managing climate and naturerelated impacts, dependencies, risks and opportunities and its performance against these.

The Fund has established processes to identify, assess and manage climate and nature-related risks in their respective asset classes, and regularly analyses risks and opportunities associated with the climate and biodiversity. Data on greenhouse gas emissions is used to assess climate risks, along with estimates of companies' and countries' adaptations towards achieving net zero emissions. For biodiversity, the portfolio's deforestation risk and companies' management of this is analysed, as well as their commitments regarding a deforestation-free supply chain. For real assets, risks are analysed by sector and geographic presence.

TCFD

AP2 aims to pursue engagement with all companies that, according to the processes detailed above, have been singled out as being high risk and failing to adequately manage risks within each focus area. Engagement is pursued if possible in collaboration with other investors, or in-house when required. Active dialogues normally involve meetings with companies at least twice a year, along with follow-up of defined performance indicators and progress of the dialogue. If required, the dialogue can be escalated via voting or shareholder proposals. Divestment is a last resort if the Fund has exhausted opportunities for engagement and there has been no result, or if it is deemed that assets cannot be adjusted.

Climate and nature-related risks are included in the Fund's existing risk categories – financial risk, operational risk and impact risk – which are continually monitored and reported to the Executive Management Team and Board of Directors. Climate and nature-related risks are relevant in all categories: financial risks linked to transition and physical risks and dependency on dwindling natural resources and ecosystems, operational risks in the form of reputational risk and impaired confidence in the Fund or the pension system, and impact risks via the investments' impact on climate and the natural environment.

The metrics are in the process of being developed. AP2 is a partner in the research collaboration BIOPATH for a broader approach to metrics, and is working with Climate & Company to develop a tool to analyse deforestation risk. In 2023, the Fund analysed data from ENCORE and Global Canopy's Forest 500 to estimate the portfolio's exposure to nature-related risks and deforestation.

In its climate and nature report, AP2 reports on:

- Sector exposure for the total portfolio. In total, 20 per cent of AP2's assets are invested in sectors that are highly relevant according to TNFD
- Geographical exposure. 25 per cent of AP2's timberland and farmland investments are located in sensitive geographical areas. Reporting for additional asset classes requires access to geographical data.
- Nature-related risks and opportunities according to TNFD Core.
- AP2 will contribute to a positive net trend for the natural environment by 2030.
- By 2025, AP2 will have a portfolio that does not contribute to

Currently, this is monitored via risk analysis of the portfolio and by following up the Fund's engagement in this area.

AP2 uses a large number of metrics to analyse carbon footprint, risks and opportunities for various asset classes. These include emissions both in absolute terms and intensity, causes of change (change in the portfolio and in companies' emissions), and indicators to assess companies' and asset managers' adjustments to net zero emissions.

See page 38 for emissions data and AP2's Sustainability Report, and the separate climate and nature report according to TCFD and TNFD.

Overview

Mission and organisation

Investments

Sustainability

Detailed sustainability information

Summary of information within focus areas

Human rights and social conditions

Sustainability data

Signatures and statement

Fund governance

Directors' Report

[–] AP2 will achieve net zero greenhouse gas emissions by 2045 at the

AP2's greenhouse gas emissions will decrease by at least 35 per cent by 2025 and by 55 per cent by 2030 (base year 2019).
 Outcome 2023: 5.43 million tCO₂e (Scopes 1–3). This is a reduction of 48 per cent since 2019.

^{*}Reporting according to TNFD indicator A(ii), focusing on AP2's portfolio and not on own operations.

Human rights and social conditions

The table gives a summary of the Fund's work on human rights and social conditions. An equivalent summary for the work on climate and nature under TCFD and TNFD can be found on pages 33–35.







Diversity, equity and inclusion



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.

Work is led by one of the Fund's sustainability analysts. AP2'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.

Strategy

AP2 creates and hones processes to manage and reduce 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 may cause or be directly linked to negative impacts in the companies in which the Fund has invested. AP2 therefore makes a conscious effort to integrate human rights into the processes that take place in connection with an 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 regular training and talks.

The CEO is responsible for ensuring strategies and plans are drawn up. The Board adopts an overall policy and receives regular information on the Fund's sustainability work, which covers issues relating to diversity, equity and inclusion (DEI). The Board has the opportunity to discuss sustainability issues, including DEI, at each meeting.

Work with DEI under the remit of corporate governance is managed by the Corporate Governance Group, while human rights issues are managed by the Fund's working group for this focus area.

With regard to AP2's internal work with DEI, the Fund's HR Manager is responsible for strategy, targets, action plans and follow-up. These are then decided by Executive Management. The Fund has an anti-discrimination policy and an equality and diversity plan, among others.

DEI are integrated into AP2's asset management both in the investment process and via voting and dialogue. For listed equities, the Fund has factors linked to DEI in the quantum portfolio's multi-factor index. Prior to making an investment in unlisted assets, the Fund carries out a due diligence assessment of the managers, which includes diversity. AP2 also has specific investments that are linked to DEI, such as social bonds.

In the past, the Fund's work has focused on diversity in terms of gender diversity. The challenge for the future is to broaden the concept of diversity in both dialogue and voting in companies, but also via analysis of the investment opportunities presented by DEI.

Since 2003, the Fund has measured the proportion of women on boards and in executive managements, and produces an annual report on the matter: AP2's Index of Female Representation. The Fund's ambition is to contribute to an objective debate on how to increase the proportion of women on boards and in management teams in Swedish listed companies, as well as diversity on boards and in management teams in terms of age, background, experience and expertise.



Corporate governance

The CEO is responsible for ensuring strategies and plans are drawn up for AP2's corporate governance work. The Board decides on an overall policy and receives regular information during the year about the Fund's work in this area, as does Executive Management.

Ongoing work on corporate governance is managed by the Fund's Corporate Governance Group, with representatives from Executive Management, the Swedish equity team and the corporate governance team.

Swedish equities – the Swedish equity team is involved in ongoing corporate governance work in the listed Swedish companies in which the Fund has holdings.

Foreign equities – voting in, and where applicable dialogues with, the Fund's foreign holdings is managed by the corporate governance team and the Fund's General Counsel.

Unlisted equities – corporate governance issues are primarily managed by the respective portfolio manager.

A large proportion of corporate governance work takes place via engagement, mainly through voting and dialogue, as well as encouraging the development of effective corporate governance.

- AP2 is active at both Swedish and foreign AGMs, and has gradually raised its ambition to vote in an increasing portion of the portfolio.
- AP2 aims to initiate dialogue with companies and does so via various activities and channels.
- AP2 wants to contribute to the development of effective corporate governance by working with other owners on issues of a principle nature, and in the development of regulations, etc.

The Fund's work is based on ten corporate governance principles that summarise the Fund's position primarily regarding portfolio companies' shareholder protection and their effective governance. The principles are a constant theme in the work of the corporate governance group, but for many years have also been integral to the asset management processes for various asset classes.

Swedish equities – the Swedish equity team's fundamental management focus involves a close dialogue with portfolio companies, which includes corporate governance issues.

Foreign equities – quantitative management of the Fund's foreign equities is based on internally-developed multi-factor indices. These indices include corporate governance factors and other sustainability-related factors, which means the Fund's perspective on the importance of these is integrated already at the portfolio's design phase.

Unlisted equities – in the due diligence phase prior to an investment, relevant sections of the Fund's corporate governance principles are analysed. Follow-up is carried out according to an established process and reported to the Fund's investment committee.

Overview

Mission and organisation

Investments

Sustainability

Detailed sustainability information
Summary of information within

Human rights and social conditions
Sustainability data

Fund governance

Signatures and statement

Directors' Report
Financial statements and notes









Human rights

Diversity, equity and inclusion

Corporate governance

Risk management

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

All senior executives have a responsibility to take DEI issues into account according to their various roles. Since AP2 is a small organisation, where several senior executives are directly engaged in DEI work, Executive Management is familiar with the work that is being done. The Fund thus has good opportunities to assess and manage DEI-related risks and opportunities. The aim of AP2's work in the area of DEI is to make a positive contribution to the return. However, the Fund is of the opinion that DEI does not currently represent a significantly high financial risk. The greatest financial risk is in society as a whole.

The fact that AP2 acts as a responsible owner contributes positively to the public perception of the Fund, and reduces the risk of reputational damage and bad publicity.

The company dialogues that the Fund conducts present opportunities to make improvements. However, the degree of transparency in these dialogues must be continually monitored to maintain both confidence in the companies and transparency to the Fund's stakeholders.

Metrics and targets

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.

The Fund follows up implementation by measuring the proportion of the strategic portfolio for which implementation is regarded as complete.

AP2'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.

AP2 exercises active and responsible ownership via an increased number of dialogues and voting in all the Fund's listed shareholdings by 2027.

Results 2023

AP2 has continued with the implementation of a systematic process for identification and management of risks in additional asset classes in the portfolio. Dialogue is underway with selected companies operating in high-risk countries or in sectors associated with high risk. The Fund has expanded its collaboration with international investors and conducts an ongoing dialogue with supranational bodies to further develop international policies and quidelines.

Through both broad and focused training initiatives, AP2's employees have gained a more relevant understanding of human rights.

The Fund has voted against proposals to the boards of 696 foreign companies, as these had less than 30 per cent representation of either gender. The Fund has not voted against any proposals to the boards of Swedish companies for this reason.

2023 is the first year that AP2 has compiled its Index of Female Representation internally, based on data from the shareholder service Holdings.

Via the organisation 'Mitt Liv' (My Life), the Fund's employees have received training on diversity, equity and inclusion.

Further details of AP2's DEI work during the year can be found in the Fund's separate Sustainability Report and at www.ap2.se

The Fund has

- voted in 87 per cent of the Swedish equity portfolio and 76 per cent of the foreign equity portfolio
- participated in 12 nomination committees ahead of Swedish AGMs for 2023
- initiated dialogues with selected foreign companies after voting against the board's recommendation at their AGM
- contacted selected Swedish companies whose incentive schemes are not consistent with the Fund's Voting Guidelines
- conducted just over 100 dialogues with both Swedish and foreign companies regarding issues directly related to corporate governance, including incentive schemes and board composition.

Further details of AP2's corporate governance work can be found in the Fund's separate Sustainability Report and at www.ap2.se.

Overview
Mission and organisation
Investments
Sustainability

Detailed sustainability information Summary of information within focus areas

Human rights and social conditions
Sustainability data
Signatures and statemen

Fund governance
Directors' Report
Financial statements and notes

Sustainability data

More detailed data is presented in the Fund's separate Sustainability Report for 2023.

Climate/Environment

CARBON FOOTPRINT OF THE LISTED EQUITY PORTFOLIO, SCOPE 1, 2 AND 3

Metrics	2023	2022	2021
1. Carbon emissions, Scope 1 and 2, EVIC (million tCO₂e)	0.40	0.62	0.69
Sweden	0.03	0.04	0.07
Developed markets	0.17	0.28	0.33
Emerging markets	0.20	0.30	0.29
2. Carbon emissions, Scope 3, EVIC (million tCO ₂ e)	3.42	4.58	5.44
Sweden	0.98	1.17	1.05
Developed markets	1.45	1.94	2.77
Emerging markets	0.99	1.47	1.62
Carbon emissions, Scope 1–3, EVIC (million tCO₂e)	3.82	5.20	6.13
Change in the portfolio's total carbon emissions from the previous year (%)	-26.9	-14.6	22.9
– of which the change related to changes in the portfolio's holdings (% units)	-26.4	-35.8	3.2
- of which the change related to changes in the companies' emissions (% units)	-0.5	21.3	19.7
3. Relative carbon emissions, Scope 1 and 2, market value (tCO₂e/SEKm)	4.48	7.43	6.35
Sweden	1.13	1.67	1.95
Developed markets	3.71	8.17	5.36
Emerging markets	8.30	16.37	14.8
4. Portfolio-weighted carbon intensity (WACI), Scope 1 and 2, market value (tCO₂e/SEKm)	5.68	8.21	9.04
Sweden	2.14	3.07	3.64
Developed markets	5.41	14.65	13.4
Emerging markets	8.79	12.31	15.00
Portfolio-weighted carbon intensity (WACI), Scope 1–3, market value (tCO ₂ e/SEKm)	52.9	72.1	
Change in the portfolio's carbon intensity from the previous year (%)	-26.7		
– of which the change related to changes in the portfolio's holdings (% units)	-27.6		
– of which the change related to changes in the companies' carbon intensity (% units)	0.9		
Market value of the Fund's portfolio covered by CO₂e data (SEKbn)	158	151	187
Proportion of the share capital for which data is available (%)	100	99.9	99.8

Carbon measurements as of and including 2019 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.

- 1. Carbon emissions, Scope 1 and 2. Total of owned share of portfolio companies' individual carbon emissions (Scope 1 and 2) based on company value as above.

 2. Carbon emissions, Scope 3. Total of owned share of portfolio companies' individual carbon emissions (Scope 3) based on company value as above.
- 3. Relative carbon emissions, Scope 1 and 2. Total of owned share of portfolio companies' individual carbon emissions based on company value as above in relation to the portfolio's market value.
- 4. Portfolio-weighted carbon intensity (WACI), Scope 1 and 2. Total 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

	2023	2022	2021
Internal environmental indicators			
Electricity, kWh	76 680	79 004	64 928
Renewable electricity, %	100	100	100
Copying paper, purchased (A4), kg	90	90.5	0
Number of printouts	26 685	20 475	15 666
Business travel			
Proportion of train journeys between Gothenburg and Stockholm, %	99	99	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	91	80	0

Employees

EMPLOYEE STATISTICS

	2023	2022
No. of permanent staff	68	69
Female staff, %	35	36
Female staff in Executive Management, %	33	33
Women on the Board, %	38	55
Average age, years	49	48
Median age, years	50	49
Staff turnover, %	1.4	4.3
Absence due to illness, %	0.9	1.2

Overview

Mission and organisation

Investments

Sustainability

Detailed sustainability information

Summary of information within

Human rights and social conditions

Sustainability data

Signatures and statement

Fund governance

Directors' Report

Financial statements and notes

١,

Corporate governance

NOMINATION COMMITTEES IN WHICH ANDRA AP-FONDEN PARTICIPATED PRIOR TO THE 2023 AGMS

Company	Proportion of women on the Board, %	Number of newly elected women	Total change compared with previous year
Better Collective	43	1	1
Biovica	43	0	0
Coor Service Management	67	0	0
Episurf	40	0	0
Genovis	20	0	0
IAR Systems	40	0	0
Kambi	40	0	0
Loomis	43	0	0
LumenRadio	33	1	1
Netel	43	0	0
Swedbank	45	0	0
Trelleborg	43	0	0
Twelve nomination committees in total	42	2	2

VOTING AT GENERAL MEETINGS 2019–2023

	2023	2022	2021	2020	2019
Swedish companies					
Voting at general meetings (annual and extraordinary) in Sweden, number	127	121	134	110	85
 equivalent to the % share of the number of companies in the Swedish listed portfolio 	72	60	60	52	44
 equivalent to the % share of the Fund's total holdings in Swedish listed equities (market value) 	87	77	86	75	73
Foreign companies					
Voting at foreign companies' annual general meetings, number	1 401	1 261	1 092	1 006	865
– equivalent to the % share of the number of companies in the global listed portfolio	67	52	52	44	37
– equivalent to the % share of the Fund's total holdings in global listed equities (market value)	76	65	53	38	33

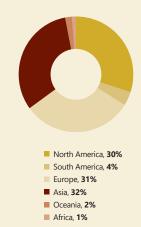
SWEDISH VOTING, SUMMARY OF DECISIONS

	Board	Board's proposal			Shareholders' proposal			
		AP2 in	AP2		AP2 in	AP2		
Area	No.	favour	against	No.	favour	against		
Board members and discharge from liability	332	332	_	2	_	2		
Incentive scheme	191	169	22					
Adoption of financial state- ments, appointment of	151	103						
auditors, etc.	438	438	-	-	-	-		
Takeover defence	-	-	-	-	-	_		
Capital structure, organisation, acquisitions	174	174	_	_	_	_		
Environment and health	_	_	_	2	_	2		
Corporate governance	193	193	_	9	_	9		
Social issues and human rights	-	-	-	3	_	3		
Total	1 328	1 306	22	16	0	16		

GLOBAL VOTING, SUMMARY OF DECISIONS

	Board's proposal			Shareholders' proposal				
		AP2 in	AP2		AP2 in	AP2		
Area	No.	favour	against	No.	favour	against		
Board members and								
discharge from liability	9 092	7 135	1 957	127	102	25		
Incentive scheme	2 375	1 656	719	43	27	16		
Adoption of financial state- ments, appointment of								
auditors, etc.	2 790	2 270	520	40	30	10		
Takeover defence	88	42	46	_	_	_		
Capital structure,								
organisation, acquisitions	1 541	1 102	439	5	4	1		
Environment and health	9	7	2	65	54	11		
Corporate governance	373	344	29	53	30	23		
Social issues and								
human rights	53	53	_	208	160	48		
Total	16 321	12 609	3 712	541	407	134		

VOTING PER REGION, 2023, INCL. SWEDEN, %



Overview Mission and organisation Investments Sustainability

Detailed sustainability information Summary of information within focus areas

Human rights and social conditions

Sustainability data
Signatures and stateme

Fund governance
Directors' Report
Financial statements and note

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 2023. The Sustainability Report comprises pages 29–39. Andra AP-fonden's statutory Sustainability Report follows the financial year and is

published annually. The previous report was published in February 2023. 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, 7 February 2024

Jan Roxendal Chair	Ingrid Albinsson Vice Chair	Mikael Bohman
Hanse Ringström	Agneta Wallmark	Rikard Anderssor
Torbjörn Dalin	Åsa Erba Stenhammar	Anna-Karin Jatko

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

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

Assignment and division of responsibility

The Board of Directors is responsible for the Sustainability Report for 2023 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, 7 February 2024

Helena Kaiser de Carolis *Authorised Public Accountant*

Peter Nilsson

Authorised Public Accountant

Overview

Mission and organisation

Investments

Sustainability

Detailed sustainabilitv informatior

Summary of information within

Human rights and

Sustainability data

Signatures and statement

Fund governance

Directors' 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 represent employees' interests, and two following proposals from organisations that represent employers' interests.

The Chair and Vice Chair are appointed by the Government, selected from the members of the Board not put forward by employer or employee organisations.

Each member shall be appointed on the basis of their ability to promote the management of the

On 25 May 2023, the Government decided on the new Board, appointing Torbjörn Dalin and Ingrid Albinsson (joined 1 August) as new members. Martina Björkman Nyqvist, Lin Lerpold and Kristina Mårtensson stepped down from the Board. After the reporting period, on 25 January 2024, the Government decided to also appoint Anna-Karin Jatko as a new member of the Board. 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 2023 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

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.

Overview
Mission and organisation
Investments
Sustainability
Fund governance

Fund Governance Report

Board of Directors

Executive Management

Directors' Report
Financial statements and notes

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 composition 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. In October, an extended meeting was held which focused on a proposal regarding the decision-making structure and overall investment process. In addition to the Board members, Board meetings are attended by the Fund's CEO and the Secretary to the Board. Other Fund employees may also attend in an advisory role as experts or to present a report. The CEO's performance is evaluated once a year. The CEO does not attend this meeting.

Fund targets

The Fund is committed to generating a solid return on invested capital to minimise the consequences arising out of activation of the automatic balancing mechanism. Andra AP-fonden has therefore designed a portfolio that is expected to generate a long-term average annual real return of 4.5 per cent.

Strategic portfolio and asset allocation

A decision was made regarding the strategic portfolio and asset allocation for 2024.

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 the strategic allocation and developments on the capital markets. 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 usually present reports at Remuneration Committee meetings. The CEO is not present when the Committee determines their 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.

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 performs its duties according to rules of procedure set by the Board annually and holds at least six meetings a year, one of which is a joint meeting with the Audit Committee. In 2023, the Risk Committee examined trends in relation to financial and operational risks, and reviewed the Fund's investments in all asset classes. The Risk Committee also worked on and developed Board reporting to promote greater transparency and clarity, in order to facilitate the Board's monitoring of asset management. 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, 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 directors is in no way limited by the establishment of the Committee or its duties. The Audit Committee held five meetings in 2023, one of which was a joint meeting with the Risk Committee for the annual review of the Fund's progress on operational risks, data security and compliance reporting. During the year, the committee's main focus was on monitoring the internal audit assignments determined by the Board, procurement of a new internal audit supplier and dialogue with the Fund's external auditors.

Evaluation of Board performance

The performance of the Board is subject to annual evaluation. This year's evaluation was conducted via a survey, followed by individual discussions between the Chair and Board members at the start of 2023. 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 improving the work of the Board, regarding collaboration with the Fund's Executive Management as well.

Audit

Andra AP-fonden's auditors are appointed by the Swedish Government. On 25 May 2023, 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

Overview
Mission and organisation
Investments
Sustainability
Fund governance

Fund Governance Report
Board of Directors
Executive Management

Directors' Report
Financial statements and notes

effective until adoption of the Fund's income statement and balance sheet for 2023.

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 also involves reviewing that Andra AP-fonden has prepared a Sustainability Report, as well as examining the Fund's guidelines on remuneration in accordance with Swedish Government guidelines on remuneration for senior executives and employees, and compliance with these. A separate statement has been submitted; see www.ap2.se.

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 guide-

lines for the overall division 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 Management 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 monitors changes to applicable regulations and communicates information about these internally, through training, policy statements and other

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 to the Board at the intervals set by the Committee. The internal audit assignment for 2023 related to a review of the Fund's ALM process and examination of the process for ensuring the Fund satisfies the requirements for green bonds from an issuer perspective.

Reporting of the completed audit took place in February 2024.

Member of the Board	Remuneration Committee	Risk Committee	Audit Committee	Attendance/total no. of meetings	Comments
Jan Roxendal, Chair	Х		X	6/6	
Lin Lerpold	Х			2/2	Left the Board in May 2023
Ingrid Albinsson, Vice Chair		Х		3/3	Joined in August 2023
Åsa Erba Stenhammar				5/6	
Agneta Wallmark				6/6	
Kristina Mårtensson				1/2	Left the Board in May 2023
Martina Björkman Nyqvist				2/2	Left the Board in May 2023
Hanse Ringström				5/6	
Mikael Bohman			Х	6/6	
Rikard Andersson		Х		6/6	
Torbjörn Dalin				4/4	Appointed in May 2023

Overview

Mission and organisation

Investments

Sustainability

Fund governance

Fund Governance Report

Executive Planagemen

Board of Directors



Jan RoxendalChair since 2018, Member of the Board since 2017. Born 1953.



Ingrid Albinsson
Member of the Board since 1 August
2023. Vice Chair. BA in Economics.
Born 1963.



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 AnderssonMember of the Board since 2022.
Master's in Business Administration.
Interim manager and consultant.
Chair of the Board of Legimeet AB and Board member of Ruth Asset
Management AB. Born 1972.



Torbjörn DalinMember of the Board since 2023. MSc in Economics and Business. Chief economist at the trade union organisation Kommunal. Board Member of Forte.
Born 1972.



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



Åsa Erba StenhammarMember of the Board since 2020.
Chief negotiator for the Swedish
Union of Civil Servants. Born 1972.



Hanse RingströmMember of the Board since 2018.
Board member of SEB Ukraina, and others. Born 1948.

Anna-Karin Jatko
Member of the Board since 25
January 2024. Economist. Director
General Exportkreditnämnden.
Board member of Vinnova.
Born 1965.

Overview
Mission and organisation
Investments
Sustainability
Fund governance
Fund Governance Report
Board of Directors
Executive Management
Directors' Report

Executive Management



Eva Halvarsson

CEO. Employed since 2006. Other roles: Board member of Vasakronan AB, Advisory Board at the University of Gothenburg School of Business, Misum, FinansKompetensCentrum and Korsvägen Foundation.

Born 1962.



Erik Kleväng Callert

Chief Investment Officer. Employed since 2022. Born 1970.



Martin Jonasson

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



Ulrika Danielson

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



Henrik Westergård

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



Ola Eriksson

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

Auditors

Helena Kaiser de Carolis

Authorised Public Accountant, PwC.

Peter Nilsson

Authorised Public Accountant, PwC.

Overview Mission and organisation Investments Sustainability Fund governance Fund Governance Report Board of Directors Executive Management Directors' Report

Financial statements and notes



Result and performance

At 31 December 2023, the Fund's capital stood at SEK 426.0 billion. The net result for the year, SEK 23.8 billion, mainly reflects the performance of Swedish and foreign equity markets, impacted by a negative return on the Fund's real-estate investments. Andra AP-fonden's net outflow for the year to the national pension system was SEK 4.8 billion.

The Fund's capital is affected by two factors; the net result for the year and net flows within the pension system. In 2023, the Fund's capital increased by a net amount of SEK 18 928 (–33 933) million,

impacted by the positive result of SEK 23 761 (–29 244) million, as well as by negative net flows of SEK –4 833 (–4 689) million to the pension system. The flows consisted of both pension contributions and pension disbursements, at a net amount of SEK –4 564 (–4 437) million, and expenses for administration of the pension system, which impacted the Fund's capital by SEK –269 (–252) million. For the fifteenth consecutive year, the net flow from the AP Funds to the pension system was negative. Over the past 15 years, Andra AP-fonden has disbursed a total of approximately SEK 82 billion to cover the ongoing shortfall in the pension system.

THE FUND'S CAPITAL GROWTH IN 2023, SEK MILLION

	2023	2022
Fund capital at start of year	407 112	441 045
Pension contributions received	85 006	81 822
Pension disbursements	-89 570	-86 259
Administration payments	-269	-252
Net result for the year	23 761	-29 244
Fund capital at year-end	426 040	407 112

ASSET CLASS GROWTH IN THE STRATEGIC PORTFOLIO, EXPOSURE AND RETURN AS AT 31/12/2023 AND 31/12/2022

	Exposed value, SEK											
	Strategic po	ortfolio, %	Exposure	e, %	billi	on	Absolute r	eturn, %	Relative r	eturn, %	Active risk e	ex-post*, %
Asset class	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Swedish equities	9.0	9.0	8.3	8.1	35.3	33.0	18.6	-20.6	1.8	2.9	2.5	2.9
Developed markets equities	20.0	21.0	18.8	19.2	80.2	78.0	13.0	-5.3	0.0	0.2	0.8	0.9
Emerging markets equities	12.0	10.5	11.1	9.5	47.3	38.7	10.8	-2.8	0.0	-0.2	0.6	0.6
Swedish fixed income	6.5	6.5	6.5	5.5	27.8	22.3	5.3	-7.4	-0.1	0.3	0.5	0.5
Foreign government bonds	4.0	4.0	3.4	3.6	14.3	14.7	1.0	-6.2	0.0	0.1	0.5	0.6
Foreign credits	9.5	9.5	8.5	8.3	36.2	33.6	6.2	-3.5	0.0	0.4	0.4	0.4
Global green bonds	3.0	3.0	2.7	2.6	11.4	10.4	6.9	-10.5	-0.7	1.5	0.4	0.6
Emerging markets fixed-income securities	7.5	7.5	6.9	7.1	29.4	28.8	11.8	4.5	0.5	-1.2	0.5	0.9
Total listed assets, excl. alternative investments, commission and operating expenses	71.5	71.0	66.1	63.7	281.8	259.5	11.1	-11.0	0.2	0.3	0.4	0.5
Alternative investments	28.5	29.0	33.9	36.3	144.2	147.6	-3.2	5.1				
Total Fund capital, excluding commission and operating expenses	100.0	100.0	100.0	100.0	426.0	407.1	6.0	-6.6				

^{*} Historical data, 12 months rolling.

Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and control
Portfolio risk
Currency exposure
Costs

Net result for the year

The result for 2023 was positive, at SEK 23.8 billion. This primarily reflects a positive development in the Swedish and foreign equity and fixed-income markets, but with a negative performance by realestate investments. The Fund's investments generated a total return of 5.9 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 on income. Both impacts are instead recognised net in Net income, foreign exchange gains/losses. Overall, the strengthening of the Swedish krona in 2023 had a negative impact on reported earnings on assets in foreign currencies. This impact was partly offset by the positive 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 10 083 (12 982) million for the year.

Net income from listed equities, comprising unrealised and realised gains/losses, totalled SEK 19 372 (–32 470) million, including expenses for performance-based fees but excluding foreign-exchange effects. The positive result was due to a strong return, particularly in the Swedish equity market but also in the foreign equity markets. The Fund's Swedish equity portfolio and the equity portfolio for foreign developed markets generated a total return of 18.6 and 13.0 per cent respectively, compared with a return of 10.8 per cent for the equity portfolio for emerging markets.

Net income from unlisted equities totalled SEK –3 715 (549) million, and is primarily attributable to the return of –16.1 per cent on traditional real estate and –2.0 per cent on sustainable infrastructure, but is mitigated by the result of 6.9 per cent on timberland and farmland, including currency hedging.

Net income from fixed-income assets totalled SEK 5 275 (–16 953) million.

The Fund's trade in derivatives posted negative net income of SEK –3 677 (–4 613) million, affected partly by the component of currency forward contracts, attributable in the accounts to derivative instruments. As a consequence of the strengthening of the Swedish krona in 2023, the Fund's currency exposure had a negative 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 a positive impact on income. Recognised net income from movements in foreign exchange rates, whereby the negative currency effects on foreign holdings, SEK –8 110 (35 848) million, and the positive impacts of currency hedging, SEK 1 982 (–26 045) million are reported together, stood at SEK –6 128 (9 803) million. See page 65 for more details of the Fund's currency exposure.

Management expenses in the form of performance-based fees, totalling SEK 31 (–11) 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. Commission expenses pertaining to fixed external management fees of SEK 66 (160) million and custodial expenses of SEK 42 (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 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 74–75. The Fund's operating expenses and commission expenses, expressed as the management expense ratio, were 0.09 (0.11) per cent for 2023. 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 68.

Operating expenses

Operating expenses amounted to SEK 278 (262) million. Recognised in relation to average Fund capital during the year, this corresponds to a cost level (management expense ratio excluding commission expenses) of 0.07 (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 2023, the Fund capital under external management was mainly active and, by year-end, SEK 74 (86) billion was being managed under external

Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and control
Portfolio risk
Currency exposure

mandates, including unlisted assets. This is equivalent to 17 (21) 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 2023, the fixed cost was SEK 66 (160) million and the variable performance-based element was SEK 31 (–11) million. The fixed external management fees for the year decreased due to termination of a number of external mandates.

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 42 (41) million in 2023.

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 74. Brokerage commission paid in 2023 totalled SEK 90 (83) million. Commission paid to the Fund's external managers accounted for 12 (10) per cent 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 64 per cent of total brokerage fees: Bank of America, Citibank, Goldman Sachs, JP Morgan and UBS.

CONTRIBUTION TO RELATIVE RETURN, %

Asset class	2023	2022
Swedish equities	0.23	0.44
Developed markets equities	0.01	0.06
Emerging markets equities	0.03	0.00
Swedish fixed-income securities	-0.01	0.02
Foreign government bonds	0.00	0.00
Foreign credits	0.01	0.06
Global green bonds	-0.03	0.06
Emerging markets fixed-income securities	0.05	-0.12
Absolute return	-0.06	-0.08
Total market-listed assets excl. alternative investments and implementation effects	0.23	0.46
Implementation effects*	-0.04	-0.15
Total market-listed assets excl. alternative investments		
and incl. implementation effects	0.20	0.31

^{*}Effects on income to maintain exposure to strategic portfolio.

CONTRIBUTION TO ABSOLUTE RETURN, %

Asset class	2023	2022
Swedish equities	1.5	-2.0
Developed markets equities	2.4	-1.2
Emerging markets equities	1.1	-0.3
Swedish fixed-income securities	0.3	-0.4
Foreign government bonds	0.0	-0.2
Foreign credits	0.5	-0.3
Global green bonds	0.2	-0.3
Emerging markets fixed-income securities	0.8	0.3
Absolute return	0.0	-0.1
Semi-strategic allocation	0.1	-0.3
Overlay	0.1	0.0
Currency hedging, listed portfolio	0.1	-3.3
Alternative investments	-1.4	3.5
Currency hedging, alternative investments	0.2	-2.0
Total assets, excl. commission and operating expenses*	6.0	-6.6

^{*}Including currency hedging.

Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and contro
Portfolio risk
Currency exposure

Portfolio return

The total portfolio return in 2023 was 6.0 per cent, excluding commission expenses and operating expenses but including performance-based fees.

Listed equities performed positively, particularly in Sweden and other developed economies. The Swedish krona strengthened slightly against the US dollar, which contributed to a lower return on US assets from a Swedish perspective. This was partially offset by the Fund's currency hedging programme.

The listed portfolio return was 11.1 per cent, including currency hedging. Foreign equities in developed markets returned 13.0 per cent in Swedish kronor, excluding currency hedging effects. Swedish equities achieved a return of 18.6 per cent, while for equities in emerging markets the return was 10.8 per cent.

Swedish fixed-income securities generated a positive return of 5.3 per cent. The returns on foreign government bonds and credits were 1.0 per cent and 6.2 per cent respectively, in Swedish kronor, excluding currency hedging. Global green bonds rose 6.9 per cent, also in Swedish kronor and excluding currency hedging effects. The foreign bond portfolios are fully hedged, however, which is why the negative effect of the stronger Swedish krona is offset by a positive return in the currency hedging positions. Fixed-income securities in emerging markets increased in value by 11.8 per cent in Swedish kronor. This asset class is partly currency hedged.

Alternative investments – real estate, private equity funds, sustainable infrastructure, private debt and alternative risk premiums - generated a return of -3.2 per cent, including currency hedging.

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 2.4 per cent. Swedish equities contributed 1.5 per cent and emerging-market equities 1.1 per cent. Swedish fixed-income securities contributed 0.3 per cent and green bonds 0.2 per cent. Foreign government bonds contributed 0.04 per cent, foreign credits 0.5 per cent and fixed-income securities in emerging markets 0.8 per cent. The contributions are recognised excluding the effects of currency hedging. Alternative investments impacted the result by –1.2 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 countries, with a view to minimising variation in the value of the ing for the listed portfolio. The Fund does not hedge emerging market currencies.

The Fund's real-estate portfolio, excluding timberland and farmland real estate, returned -16.1 per cent. The timberland and farmland portfolio returned 6.9 per cent. The private equity portfolio produced a return of 2.1 per cent for the year. Alternative risk premiums delivered a return of 13.0 per cent. The portfolio of unlisted credits is under development and its return was 5.5 per cent. The management of sustainable infrastructure assets is also under development, but has come slightly further. The return in 2023 was -2.0 per cent. These returns are recognised including currency hedging.

Andra AP-fonden has generated an average annual return of 6.6 and 6.8 per cent over the past five and ten years respectively. Minus inflation, this is equivalent to an annual real return of 2.1 per cent over five years and 3.9 per cent over ten years. Andra AP-fonden has designed a portfolio that is expected to generate a long-term average annual real return of 4.5 per cent (including costs). The expected return is based on expected annual inflation of 2 per cent.

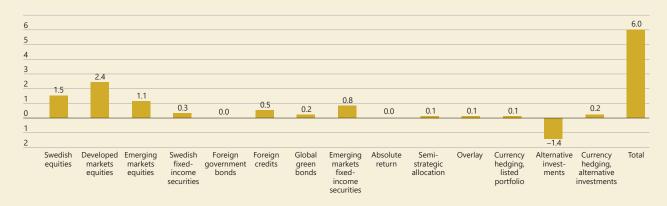
systematic hedging programme for the currencies of developed portfolio in the long term. The strengthening of the Swedish krona resulted in a positive 0.1 per cent contribution from currency hedg-

Mission and organisation Sustainability **Fund governance Directors' Report** *Net result for the year*

Overview

Financial statements and notes

CONTRIBUTION TO TOTAL PORTFOLIO, ABSOLUTE RETURN IN 2023, EXCLUDING COSTS, %



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 2023, the listed portfolio had a return of 11.1 per cent, in Swedish kronor including currency hedging. The active return for the year was 0.23 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 0.20 per cent. Implementation effects therefore reduced the relative return by 0.04 per cent. The semi-strategic portfolio contributed 0.10 per cent to the Fund's total return. The relative return and the semi-strategic decisions generated a combined return of 0.23 per cent this year.

In the last five years, the Fund's active return has averaged 0.12 per cent per year. Over the same period, implementation effects have averaged -0.09 per cent. The average relative return has thus been 0.03 per cent. The Fund has set a target of 0.50 per cent per year for the relative return over time.

Swedish equities

The Swedish equity portfolio outperformed the benchmark index by 1.8 per cent. The large cap portfolio outperformed the benchmark index by 2.5 per cent. The small cap portfolio underperformed the benchmark index by -0.5 per cent. The Fund manages all Swedish equities fundamentally and in-house.

Foreign equities

The management of foreign equities in developed markets delivered a positive active result of 0.02 per cent. The active result for equities in emerging markets was 0.04 per cent. The Fund manages all foreign equities in-house.

Swedish and foreign fixed-income securities

The Swedish fixed-income management's active return was -0.1 per cent. The portfolio of foreign government securities, managed in-house, had an active return of -0.02 per cent. The in-house management of credit bonds outperformed the benchmark index by 0.02 per cent.

The management of emerging-market bonds, issued in US dollars, achieved an active return of 0.8 per cent during the year. The management of emerging-market bonds in local currency generated an active return of 0.4 per cent. The management of global green bonds had an active return of -0.7 per cent during the year.

Other contributions

The Fund's in-house tactical allocation activities delivered a negative result of SEK –176 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 413 million. Equity loans and currency trading contributed SEK 29 million.

RELATIVE RETURN PER ASSET CLASS IN 2023 (2022), %



- investments and expenses
- Swedish equities
- Developed markets equities
- Emerging markets equities
- Foreign government bonds Foreign credits
- Global green bonds
- Emerging markets fixed-income securities

Overview

Mission and organisation

Sustainability

Fund governance

Net result for the year

OVERVIEW 10 YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Fund capital, SEK billion	426.0	407.1	441.0	386.2	381.3	334.8	345.9	324.5	300.6	293.9
Net outflows to national pension system, SEK billion	-4.8	-4.7	-7.5	-7.9	-6.5	-6.8	-7.4	-6.6	-4.9	-5.1
Net result for the year, SEK billion	23.8	-29.2	62.3	12.8	53.0	-4.3	28.8	30.5	11.7	34.3
Return on total portfolio before commission expenses and operating expenses, %	6.0	-6.6	16.4	3.7	16.1	-1.2	9.1	10.5	4.1	13.3
Return on total portfolio after expenses, %	5.9	-6.7	16.3	3.5	15.9	-1.3	9.0	10.3	4.0	13.1
Relative return on listed assets, excl. alternative investments, commission expenses and operating expenses, %1	0.2	0.3	0.5	0.0	-0.9	-0.2	0.1	-0.4	0.9	0.5
Active risk ex-post, %	0.4	0.5	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.3
Currency exposure, %	22	23	34	34	34	32	33	31	30	24
Management expense ratio, excl. commission expenses, %	0.07	0.06	0.06	0.06	0.07	0.06	0.06	0.07	0.07	0.07
Management expense ratio, incl. commission expenses, %	0.09	0.11	0.11	0.14	0.15	0.14	0.15	0.15	0.18	0.17
Annualised return after operating expenses, 5.0 years, %	6.6	5.2	8.5	7.3	7.4	6.9	9.8	10.6	8.0	9.4
Annualised return after expenses, 10.0 years, %	6.8	7.4	9.5	7.7	8.4	8.8	6.0	5.5	5.7	7.1

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

THE FUND'S PERFORMANCE AND FLOWS 2004–2023, SEK BILLION



verview

Mission and organisation

nvestments

ustainability

Fund governance

Directors' Report

Result and performance

Net result for the year

Internal governance and contro

Portfolio risk

Currency exposure

Costs

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 and sustainable infrastructure.

The return for all asset classes within alternative investments amounted to –3.8 per cent (–3.2 per cent including currency hedging).

The aim for the unlisted assets over time is to establish portfolios of quality holdings with a long-term investment horizon. The focus therefore tends to be on the return over time rather than for a single calendar year.

Unlisted real-estate investments had a significant impact on the entire alternative portfolio, with a return for 2023 of –16.6 per cent (–16.1 per cent including currency hedging). This should be regarded as a reflection of performance of the wider real-estate market, which featured higher interest rates and increased yield requirements for properties. Real-estate holdings in the investments in the portfolio are deemed to be of good quality, well situated and with solid financing, which combined mean the Fund is well prepared for more normal market conditions. Over the past five years, the unlisted real-estate investments have generated an average annual return of 6.0 per cent (4.4 per cent including currency hedging).

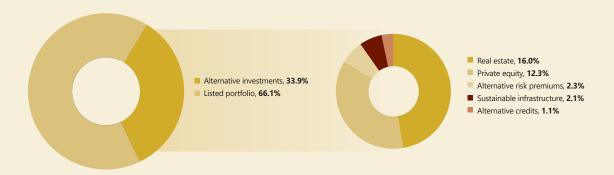
The long-term investments in timberland and farmland have continued to generate a positive return, averaging an annual return of 9.0 per cent over the past five years (6.0 per cent including currency hedging).

A well-diversified portfolio, with investments in private equity funds, has generated a very attractive return over time, and existing holdings have been selected in order to prolong this positive performance. The portfolio's annual return over the past five years has averaged 18.2 per cent (16.6 per cent including currency hedging).

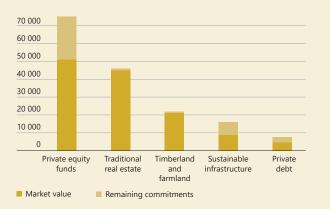
Investments in private debt began three years ago. The portfolio remains under development and it is therefore too soon to evaluate, but investment opportunities have been excellent over the past few years.

The sustainable infrastructure portfolio is still being developed to create a foundation for a long-term, attractive return. Since inception, the portfolio has generated a healthy return. However, for 2023, the return was slightly negative, which can be attributed to slightly lower valuation of operational projects.

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



UNLISTED INVESTMENTS BY MARKET VALUE AND REMAINING COMMITMENTS. SEK MILLION



Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and contro
Portfolio risk
Currency exposure

The investments within alternative risk premiums, which currently entirely comprise ILS investments (Insurance-linked Securities), were doubled at the start of 2023. The return amounted to 12.0 per cent (13.0 per cent including currency hedging), which is an extremely attractive level for a completely uncorrelated return.

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 economies are not hedged.

Private equity funds

In 2023, the return on private equity funds was 1.8 per cent (2.1 per cent including currency hedging). The portfolio's market value was SEK 50.9 billion at the end of the year.

The portfolio of private equity investments has generated a high return in the long term 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.

Since inception in 2001, SEK 62.3 billion (including management fees) has been invested, of which SEK 56 billion has been repaid. Investment activity in the market has been lower than in previous

years, peaking in 2021, which is also reflected in the portfolio. In 2023, SEK 6.9 billion (including management fees) was invested and SEK 4.9 billion was repaid, resulting in a net investment of SEK 2 billion. During the year, 14 new investments were carried out in which the total commitment was equivalent to SEK 7.3 billion. New investment commitments include allocations to Ares, Balderton, BPEA EQT, Breakthrough Energy Ventures, CVC Capital Partners, Data Collective Venture Capital, EQT Partners, Generation Investment Management, Genui, Hellman & Friedman, Khosla Ventures and New Mountain Capital. Investments made comprised reinvestments with existing managers and strategies, but also in new strategies and new managers, with two investments specifically addressing the climate issue from various perspectives. Since the launch of the portfolio, 218 investments have been made.

The exposure to North America was 57 per cent, Europe 25 per cent, Asia 17 per cent and the rest of the world 1 per cent. The portfolio is also diversified by sector, with information technology accounting for 28 per cent, followed by healthcare at 17 per cent.

By investment style, buyout and growth funds have the highest share at 64 per cent, followed by venture funds at 28 per cent, and special situation and problem companies at 8 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 72–73.

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 174 billion, and has a concentrated portfolio of attractively located real-estate holdings in the Stockholm, Gothenburg, Malmö 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 2.6 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. The market value of Andra AP-fonden's real-estate holdings is approximately USD 2.2 billion.

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

PORTFOLIO GROWTH, REAL ESTATE

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



ANDRA AP-FONDEN

Overview

Sustainability

Fund governance

Net result for the year

Financial statements and notes

Mission and organisation

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 annual return on Andra AP-fonden's investments in traditional real estate has averaged 12.3 per cent (11.3 per cent including currency hedging) since inception. In 2023, the return was –16.6 per cent (–16.1 per cent including currency hedging). The negative return is largely due to lower market valuations of underlying real estate, as higher interest rates have resulted in increased yield requirements.

Sustainable infrastructure

Andra AP-fonden has had a sustainable infrastructure portfolio since 2020. Investments are 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.

The portfolio is currently made up of ten investments with a good spread in terms of location and sector. The largest investments are: Generate Capital, which owns and operates small-scale sustainable infrastructure mainly within the field of energy. Pattern Energy, which is one of the largest wind power development companies in the US. Two global fund investments with Copenhagen Infrastructure Partners, CIP IV and V, two of the largest global funds for the development and operation of wind farms with a focus on offshore wind. Sandbrook Climate Finance Partnership Fund, which invests in companies with clear growth potential within renewable energy production. In addition, Andra AP-fonden has invested in: Two, slightly smaller CIP funds focused on hydrogen and bioenergy. Northvolt AB, which is building a facility in Skellefteå for the manu-

facture of lithium-ion batteries for electric vehicles and energy storage. BlackRocks Climate Finance Partnership Fund, which focuses on the construction of sustainable infrastructure in emerging economies. H2 Green Steel (H2GS), which is building the world's first wholly integrated steelworks for fossil-free steel in Boden in northern Sweden, a process that uses green hydrogen as a source of energy.

Since the start in 2020, Andra AP-fonden's investments in sustainable infrastructure have generated an average return of 13 per cent (13.9 per cent including currency hedging). The return for 2023 was –2.7 per cent (–2.0 per cent including currency hedging). The return was negative due to lower market valuations of operational projects.

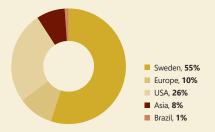
Timberland and farmland

In 2010, Andra AP-fonden made its first investments in timberland and farmland 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 were considered to generate a stable return. More recently, sustainability and climaterelated issues have gained an increasingly significant focus, and Andra AP-fonden has developed a number of climate and environment-related criteria for its timberland and farmland. With Andra AP-fonden's long-term investment horizon, it is important to consider climate aspects in investment decisions, and the Fund's timberland and farmland assets can now be classified as climate investments. 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 farm-

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



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



land real estate is mainly located in the USA, Australia, Poland and Brazil. It is primarily engaged in the production of grain on large-scale, high-quality agricultural land in countries with clear legal structures, where agricultural production is efficient and the countries are net exporters of agricultural products. Andra AP-fonden's timberland real estate is located mainly in the USA and Australia. It focuses 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).

Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and control
Portfolio risk

In 2023, the Fund's return on investments in farmland was 5.5 per cent (6.2 per cent including currency hedging). The return on investments in timberland was 6.7 per cent (8.2 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 are mainly 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 2023 and the performance of the fund investments has been highly satisfactory. The main reason for this is rising base rates, which is significant as the vast majority of the loans in this portfolio are variable-rate loans.

The portfolio's market value was SEK 4.5 billion at the end of the year. Andra AP-fonden made five new investments during the year, with combined commitments of SEK 4.1 billion. 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 2023, the portfolio consisted entirely of premiums for reinsuring insurance companies, and all mandates have been managed externally.

The return for 2023 was 12.0 per cent (13.0 per cent including currency hedging). The very positive result for the portfolio is attributable to rising base rates, combined with sharply increasing premiums for this type of reinsurance business following Hurricane Ian, which hit Florida in September 2022.



Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and control
Portfolio risk

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.

Andra AP-fonden's overall business objective is to minimise the negative effect on pensions that would derive from applying what is termed 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 Ordinance (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 right.

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.

Integrity and culture Independence and monitoring CONTROL • Responsibilities and authorities **ENVIRONMENT** Duality • Leadership and values • Set relevant operational and return targets RISK · Define risk framework • Identify, analyse and manage risks **ASSESSMENT** · Identify and manage change • Identify and create control activities CONTROL • Identify and create general IT controls **ACTIVITIES** • Spread knowledge through policies and quidelines · Use relevant information **INFORMATION AND** • Structures and procedures for internal COMMUNICATION and external communication • Conduct regular and separate evaluations MONITORING AND Identify, evaluate and communicate **EVALUATION** non-conformances

Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and control
Portfolio risk

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 division of responsibilities and authorities, as well as 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 Fund's culture is based on the core values: results-driven, committed, responsible and transparent. 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 assumptions to be challenged.

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 on the left.

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 62.

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 provides 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.

The Board of Directors

CEO

First line of defence

Asset management

Responsibilities

Ensure the business achieves its objectives within the framework of given risk appetite.

Duties

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

Reporting

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

Second line of defence

Risk and regulatory compliance

Responsibilities

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

Duties

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

Reporting

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

Third line of defence

Internal audit

Responsibilities

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

Duties

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

Reporting

Report identified observations and improvement proposals to the Board of Directors.

Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and control
Portfolio risk
Currency exposure

Mission and organisation

Overview

Financial statements and notes

Portfolio risk

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 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 a 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 each mandate's Investment Guideline. The risk budget is drawn up annually. Senior portfolio managers present their proposal to the Fund's Executive Management for approval.

Compliance

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

Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and control
Portfolio risk
Currency exposure
Costs

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.

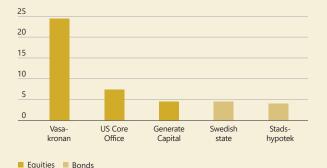
As well as the grouping of risks into financial and operational risks, there is also the risk that an investment might cause harm to human life or the environment, without necessarily having any

impact on financial or operational risks. These risks can be categorised under impact risks. High impact risks mean that the Fund finds it difficult to achieve its goal of exemplary management. The risk of the Fund contributing to violations of human rights through its investments is one example of this kind of risk.

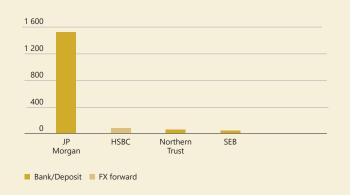
Market risk

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.

EXPOSURE TO ISSUERS, SEK BILLION



COUNTERPARTY RISK, SEK MILLION



FIXED-INCOME PORTFOLIO DURATION IN 2023, YEAR



Overview

Mission and organisation

Sustainability

Fund governance

Directors' Report

Portfolio risk

Financial statements and notes

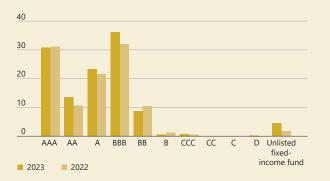
It also conducts ongoing ad hoc analyses to identify the risk-taking in different parts of the portfolio. Furthermore, the Fund conducts evaluations of risk models, as well as assessments and reviews of the limit structure.

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.

CREDIT RISK, SEK BILLION



Ways in which Andra AP-fonden limits credit risk in the fixed-income portfolio include statutory credit checks and exposure limits. The starting point is an 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, declined during the year as a result of reduced movements in the market. At year-end it stood at 5.7 per cent.

Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and control
Portfolio risk
Currency exposure
Costs

Andra AP-fonden reports a reduced active risk ex-post for the total listed portfolio for 2023. As at 31 December 2023, active ex-post risk stood at 0.44 (0.47) per cent. Active risk for the asset classes had only minor changes during the year.

Calculated for the 12 months, the information ratio for the listed portfolio was 0.5 at year-end. Due to an improved absolute return, the Sharpe ratio for the Fund's listed portfolio rose during the year to 1.9 at 31 December.

At 31 December, the fixed-income portfolio duration was 5.6 (5.6) years, which is the same as for the previous year.

The credit quality of the fixed-income portfolio changed somewhat during the year. The Fund had 26 (28) per cent rated AAA, 11 (10) per cent rated AA, 20 (20) per cent rated A, and 30 (29) per cent rated BBB.

For the currency-hedged asset classes, alternative asset classes are calculated to have the highest absolute ex-ante volatility (see chart on page 64, 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. In 2022, the risk increased as a consequence of Russia's invasion of Ukraine, but in 2023 it returned to levels that were in line with 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 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.

The Fund's total ex-ante volatility is estimated to be 10.3 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 64, Contributions to Ex-ante Volatility Per Asset Class And Change). Although alternative asset classes have high absolute risk, historically they contribute proportionately with slightly less risk than equities due to better diversification of the Fund's total risk (see paragraph above). Private equity funds and traditional real estate

are the asset classes that carry the most risk after listed equities. The risk contributions from all fixed-income mandates are low.

Estimated volatility decreased by approximately 1.5 percentage points during the year. The primary reasons for the decrease in forecast volatility are that exposure to directly-owned real estate has declined, as well as the fact of how the risk model manages time series data, combined with there being no events in 2023 that caused extreme market volatility.

The listed portfolio's active ex-ante risk is estimated to be 0.38 per cent (see chart on page 64, 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.

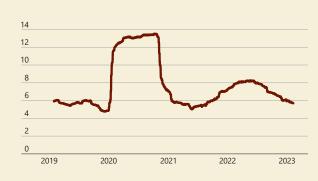
The Fund's one-day 95 per cent VaR (Value at Risk) is estimated to be approximately SEK 4.6 billion (see table below). In other words, with an assumed probability, the Fund is expected to lose a maximum of SEK 4.6 billion a day per month. The Fund's annual volatility is estimated to be approximately SEK 44.1 billion. The Fund thus estimates that with standard deviation probability, next year's results will be between plus/minus SEK 44.1 billion, provided that the positions from year-end do not change.

RISK CALCULATED AS VALUE-AT-RISK (VAR) FOR ANDRA AP-FONDEN'S TOTAL PORTFOLIO, 2023

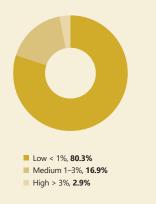
SEK million	Contribution to ex-ante VaR (95%, 1 day)	Contribution to ex-ante volatility (1 year)	Percentage Risk (%)	Percentage market value (%)
Equities	2 245	21 620	49	38
Fixed-income securities	313	3 017	7	28
Currency risk	-97	-930	-2	0
Alternative investments	2 116	20 379	46	34
Total AP2	4 578	44 086	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.

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



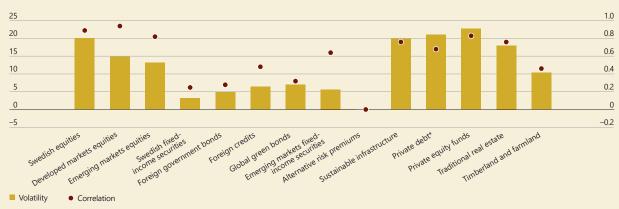
ALLOCATION OF ACTIVE RISK, %



Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and control
Portfolio risk

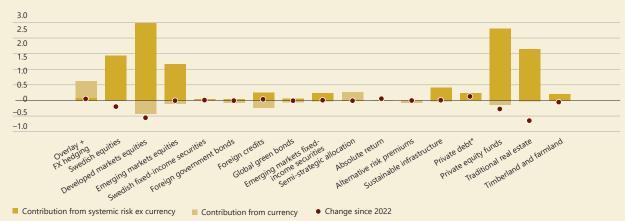
Financial statements and notes

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



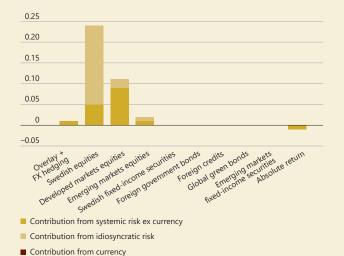
* Private debt is a new asset class under development.

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



^{*} Private debt is a new asset class under development.

CONTRIBUTION TO LISTED PORTFOLIO EX-ANTE ACTIVE RISK, %



Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and control
Portfolio risk
Currency exposure

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, 22 (23) per cent of the Fund's portfolio was exposed to foreign currency. The largest of these was the Fund's exposure to USD, INR and JPY. 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 2023 had a negative impact on income, due to the net strengthening of the Swedish krona against other currencies.

The currency hedging programme had a positive impact on income. A total of SEK –6.1 (9.8) billion in foreign-exchange losses was recognised for the Fund's total portfolio exposed to foreign currency, including currency hedging.

CURRENCY EXPOSURE IN 2023 AND 2022, EQUIVALENTS IN SEK MILLION

31/12/2023	USD	INR	JPY	EUR	BRL	IDR	Other	Total
Equities and participations	126 157	8 861	8 254	28 371	3 881	834	43 015	219 373
Bonds and other fixed-income securities	41 213	0	2 868	25 185	2 187	2 337	21 756	95 546
Other assets and liabilities, net	303	1 724	316	416	408	2 708	-1 865	4 010
Derivatives excl. foreign exchange derivatives	-17	_	_	2	_	_	-	-15
Foreign exchange derivatives	-146 712	112	-814	-44 243	60	_	-32 788	-224 385
Currency exposure, net	20 944	10 697	10 624	9 731	6 536	5 879	30 118	94 529
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

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 START, %



- Currency exposure Andra AP-fonden

The statutory limit for currency exposure is 40 per cent.

Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Result and performance
Net result for the year
Internal governance and control
Portfolio risk
Currency exposure

Continued reduction in 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 both 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 2023, the Fund further reduced costs by completing the termination of a number of external mandates. The management expense ratio for 2023, including commission expenses, was lower compared with the previous year, at 0.09 per cent. The management expense ratio, excluding commission expenses, rose by 0.01 percentage points, and totalled 0.07 per cent. To follow is a breakdown of the various costs affecting the result of Andra AP-fonden

Commission expenses

Commission expenses are recognised in the income statement as a deduction in 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.

External management fees

What are these costs?

There are payments to external asset managers to cover the cost of managing Andra AP-fonden's capital. The asset management can be conducted on a discretionary basis or via the manager's funds, and relates exclusively to assets classified as listed assets, that is not unlisted assets such as private equity funds or real-estate funds.

Why does the Fund incur this cost?

Capital is allocated to a number of different asset classes for the purposes of diversifying the portfolio. Certain asset classes are managed externally, for example because Andra AP-fonden lacks the internal resources or is unable to create sufficient economies of scale to manage the assets in-house. The asset managers selected specialise in this asset class, which means that in addition to diversifying the portfolio, the investments can also generate attractive returns.



This year's and previous year's costs

The costs have dropped from SEK 160 million in 2022, to SEK 66 million in 2023. The decline is due to the termination of a number of external mandates in 2023, and external management fees are now down to a level that is expected to be maintained in the long term.

However, these costs are affected by the performance of the investments. At year-end, externally managed capital (which determines the level of the management fees) solely comprised investments in alternative risk premiums, specifically funds that specialise in premiums for reinsuring insurance companies.

Custodial expenses



What are these costs?

These are fees to the Fund's custodial bank for the safekeeping of securities, payments and for matching transactions. With regard to safekeeping, the cost is linked to the market value of the assets being stored. For payments and transaction flows, the cost is largely dependent on the number of transactions.



Why does the Fund incur this cost?

Andra AP-fonden carries out much of its asset management activities in-house. This determines the level of custodial expenses, as to a great extent they are dependent on the market value of the internally managed capital, and how intensive the management is in terms of transactions. 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.



This year's and previous year's costs

Custodial expenses amounted to SEK 42 (41) million in 2023. The Fund changed its custodial bank in 2023, which has affected costs for the year and over time is expected to significantly reduce annual custodial expenses.

Overview Mission and organisation Sustainability **Fund governance** Costs

Operating expenses

Operating expenses are reported separately in the income statement and comprise personnel costs and other administrative expenses.

Personnel costs



What are these costs?

They are salaries, pension premiums, allowances and costs relating to conferences and training.



Why does the Fund incur this cost?

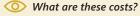
To be a leading pension manager in a changing world, the Fund needs to employ specialists within a number of different areas. Continuing professional development is also essential if the Fund is to remain at the forefront of the industry.



This year's and previous year's costs

Costs for the year increased from approximately SEK 161 million in 2022, to SEK 170 million in 2023. The increase is primarily due to general salary increases, but also full-year effects from appointing individuals in 2022 who have worked for the whole of 2023. The number of employees at year-end totalled 68 individuals (69). Find out more under Note 5 on pages 75-76.

Other administrative expenses



Other administrative expenses are all internal costs apart from personnel costs. Administrative expenses comprise costs relating to premises, information and IT costs, purchased services and other expenses.



Why does the Fund incur this cost?

These costs are associated with day-to-day operations and the management of Andra AP-fonden. The approach that Andra AP-fonden takes to asset management requires access to a vast amount of information and a number of systems. This is the single largest internal cost item apart from personnel costs. System and IT costs are essential in order to pursue high-quality, secure operations. Information costs are driven both by the need for information on securities to enable carefully balanced investment analyses, and to enable continual assessment of the level of risk in the portfolio.



This year's and previous year's costs

Costs for the year increased from SEK 101 million in 2022, to SEK 108 million in 2023. The increase is mainly due to general increases in costs and various projects undertaken in 2023. Find out more under Note 6 on page 77.

Costs affecting net income

Some costs, such as performance-based fees, management fees for unlisted equities and participations and brokerage commission, affect the net income of the respective asset class, and are therefore not reported as a cost item in the income statement. However, details of some costs are provided in the notes.

Performance-based fees



What are these costs?

Payments to external asset managers that are made when they have delivered an excess return against a predetermined level or benchmark. This means a variable fee that is a form of profitsharing between the asset manager and Andra AP-fonden.



(?) Why does the Fund incur this cost?

Fees to external asset managers may consist of both a fixed fee and a variable element, which is regulated by the contract with the manager. A higher variable element may entail a lower fixed fee, and vice versa. Different asset managers have different models for fees. Andra AP-fonden has a mix of fee models among its external asset managers, which is down to contract negotiations with each asset manager. A profit-sharing model means that the Fund shares the risk with the manager, and boosts the incentive for them to deliver a healthy return. It also means that the costs may fluctuate over time.



This year's and previous year's costs

Performance-based fees were negative (i.e. revenue) in 2022 because the provisions made at accounts closing 2021 were too high. The costs have therefore risen from SEK -11 million in 2022, to SEK 31 million in 2023, 2023 saw the termination of a number of mandates that were previously able to earn a performance-based fee. At year-end there was only one asset manager left able to earn a performance-based fee.

Brokerage commission



What are these costs?

A brokerage commission is paid on the purchase and sale of equities, participations and forward contracts. 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'. Brokerage commission for listed equities and participations is reported as a deductible item in Net income for listed equities and participations. See Note 2 on page 74.



Why does the Fund incur this cost?

The cost of brokerage fees is linked to how much trading the Fund carries out in equities, participations and forward contracts. Since Andra AP-fonden continually rebalances internally managed equity mandates to restore portfolio weightings to strategic levels, trading needs to take place in the market.



This year's and previous year's costs

Brokerage commission paid in 2023 for equities and participations totalled SEK 90 (83) million. Commission paid to the Fund's external managers accounted for 12 (10) per cent 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

Brokerage commission paid in 2023 for forward contracts totalled SEK 3 (4) million. The brokerage commission cost is attributable to the Fund's internal asset management.

Management fees for unlisted assets



What are these costs?

They are payments to managers of unlisted assets to cover the cost of managing the capital that Andra AP-fonden invests in their funds. The payment structure in these funds is often designed so that payment occurs continually based on the capital that the fund has undertaken

Overview

Mission and organisation

Sustainability

Fund governance

Costs

Financial statements and notes

to invest in the fund over time. When the fund is wound up by divesting the underlying assets, the management fees paid are first paid back to Andra AP-fonden, then (if the fund has generated a profit) the investors receive a previously agreed return and any remaining profit is distributed between the asset manager and the investors. As the management fees will be paid back in the future, the costs are reported as a portion of the cost of the investment, thus affecting the unrealised net income for unlisted assets. Once the management fees have been repaid, there is a positive impact on the unrealised result.

Why does the Fund incur this cost?

Capital is allocated to a number of different asset classes for the purposes of diversifying the portfolio. Unlisted assets often require a long-term approach, which Andra AP-fonden is able to undertake via its mission. The Fund has been investing in unlisted assets since 2001.



This year's and previous year's costs

The costs that are reported relate to payments to unlisted funds for ongoing management. During the year, these costs amounted to SEK 689 (587) million. In 2023, SEK 366 (353) million was paid back from funds in connection with the divestment of underlying holdings. This means that the unrealised result was affected by a net amount of SEK -323 (-225) million.

Cost comparison from a global perspective

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

EFFICIENCY COMPARISON WITH INTERNATIONAL PENSION FUNDS 2004–2022, INDEXING



Andra AP-fonden
 Benchmark group

The CEM study shows Andra AP-fonden's cost level in relation to the comparison group for the period 2004-2022.

The study includes essentially all costs affecting Andra AP-fonden, that is both costs recognised in the income statement and costs affecting net income.

Andra AP-fonden has been taking part in CEM's annual comparison study since 2004. According to the latest analysis for 2022, Andra AP-fonden continues to carry out its asset management duties in a successful and cost-effective way. The Fund's cost level is still lower than that of the benchmark group by a significant margin. This can mainly be attributed to cost-effective internal management and less use of external management.

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 ten 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
- Data security
- 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).

Collaboration projects in 2023

In 2023, an in-person collaboration day was organised, which was attended by around 140 employees. The main theme of this event was Al.

Procurement and evaluation of products and services is an area of ongoing collaboration for the AP Funds. Other examples of areas of collaboration are the AP Funds' joint training programme for specialist roles, and cooperation on international tax issues.

Overview

Mission and organisation

Sustainability

Fund governance

Directors' Report

Costs

Financial statements and notes



Income statement

Amounts in SEK million	Note	Jan-Dec 2023	Jan-Dec 2022
Operating income			
Net interest income	1	4 409	3 924
Dividends received		5 674	9 058
Net income, listed equities and participations	2	19 372	-32 470
Net income, unlisted equities and participations	3	-3 715	549
Net income, fixed-income securities		5 275	-16 953
Net income, derivative instruments		-3 677	-4 613
Net income, foreign exchange gains/losses		-3 191	11 724
Commission expenses, net	4	-108	-201
Total operating income		24 039	-28 982
Operating expenses			
Personnel costs	5	-170	-161
Other administrative expenses	6	-108	-101
Total operating expenses		-278	-262
NET RESULT FOR THE YEAR		23 761	-29 244

verview

Mission and organisation

nvestments

Sustainability

Fund governance

Directors' Report

Financial statements and note

Income statement

Balance shee

Accounting and

valuation principles

Notes

Auditor's Report

quities, participations and xed-income securities

Balance sheet

Amounts in SEK million	Note	31/12/2023	31/12/2022
ASSETS			
Equities and participations			
Listed	7	159 173	157 838
Unlisted	8	127 275	128 173
Bonds and other fixed-income securities	9	123 082	112 808
Derivative instruments	10	15 694	8 287
Cash and bank balances		15 339	7 018
Other assets	11	501	55
Prepaid expenses and accrued income	12	2 287	2 079
TOTAL ASSETS		443 351	416 258
FUND CAPITAL AND LIABILITIES			
Liabilities			
Derivative instruments	10	3 436	3 993
Other liabilities	13	13 316	4 170
Deferred income and accrued expenses	14	559	983
Total liabilities		17 311	9 146
Fund capital	15		
Fund capital at start of year		407 112	441 045
Net payments to the national pension system		-4 833	-4 689
Net result for the year		23 761	-29 244
Total Fund capital		426 040	407 112
TOTAL FUND CAPITAL AND LIABILITIES		443 351	416 258
Pledged assets and contingent liabilities	16		
Other pledged assets and contingent liabilities		894	2 296
Commitments		42 038	37 020

verview

Mission and organisation

nvestments

Sustainability

Fund governance

Directors' Report

ncome statement

Balance sheet

Accounting and

valuation principles

Notes

Auditor's Report

quities, participations and ixed-income securities

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 Insur-

ance Funds Act's requirements for fair value measurement is met. In cases where reference is made below to the selected index provider, see page 25 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 transactions on a secondary market. Deferred tax liabilities relating to holdings in unlisted real-estate companies are measured at the

Overview

Mission and organisation

Investments

Sustainability

Fund governance

Directors' Report

Financial statements and notes

Income statement

Balance sheet

Accounting and valuation principles

Notes

Auditor's Repor

Equities, participations are fixed-income securities

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 aquisition value, is recognised as interest income. Accrued aquisition 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.

Гах

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.

Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Financial statements and notes

Income statement

Balance sheet

Accounting and valuation principles

Note

Auditor's Report
Equities, participations and
fixed-income securities

Notes to the income statement and balance sheet

NOTE 1 Net interest items

Amounts in SEK million	Jan-Dec 2023	Jan-Dec 2022
Interest income		
Bonds and other fixed-income securities	4 309	3 895
Other interest income	141	66
Total interest income	4 450	3 961
Interest expense		
Other interest expense	-41	-37
Total interest expense	-41	-37
Net interest income	4 409	3 924

Note 2 Net income, listed equities and participations

Amounts in SEK million	Jan-Dec 2023	Jan-Dec 2022
Net income, listed equities and participations	19 462	-32 387
less brokerage commission	-90	-83
Net income, listed equities and participations	19 372	-32 470

NOTE 3 Net income, unlisted equities and participations

Amounts in SEK million	Jan-Dec 2023	Jan-Dec 2022
Capital gains	3 241	2 760
Unrealised changes in value	-6 956	-2 211
Net income, unlisted equities and participations	-3 715	549

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 689 (578) million was paid in management fees relating to unlisted assets. Repayment of SEK 366 (353) 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 –323 (–225) million.

NOTE 4 Commission expenses, net

Amounts in SEK million	Jan-Dec 2023	Jan-Dec 2022
External asset management fees, listed assets	66	160
Other commission expenses, including custodial expenses	42	41
Total	108	201

Commission expenses do not include performance-based expenses.

Performance-based expenses for the year totalled SEK 31 (–11) million and reduced net income for the respective asset classes.

Overview

Mission and organisation

Investments

Sustainability

Fund governance

Directors' Report

Financial statements and notes

Income statemer

Balance sheet

Accounting and valuation princip

Notes

Auditor's Repo

Note 4 cont.

EXTERNAL MANAGEMENT MANDATES AT 31 DECEMBER 2023, SEK MILLION

Mandate	Average assets under management in 2023	Market value 31/12/2023 *	% Fund capital	management expense
External discretionary mandates				
Equity mandates				
Total external discretionary mandates		0	0	14**
Investments in listed external funds				
Equity funds		0		8**
Fixed-income funds	7 964	9 204		44
Total investments in listed external funds	7 964	9 204	2.2	52
Investments in unlisted funds	62 925	64 701	15.2	
Total capital assets under external management and management costs	70 889	73 905	17.4	66

^{*} Market value including allocated liquidity, derivative instruments and accrued interest.
** Fees paid to external managers whose mandates have been discontinued during 2023.

NOTE 5 Personnel

	2023					
Number of employees	Total	Men	Women	Total	Men	Women
Average number of employees	69	46	23	69	44	25
Number of employees, 31 December	68	44	24	69	44	25
Number of persons in Executive Management Team, 31 December	6	4	2	6	4	2

Mission and organisation

Fund governance

Directors' Report

Notes

Note 5 cont.

PERSONNEL

Personnel costs in SEK thousand, 2023	Salaries and fees	Pension costs	Of which salary exchange	incl. special employer's contributions	Total
Chair of the Board	215	_	_	70	285
CEO	4 614	1 682	254	1 861	8 157
Board of Directors, excluding Chair	877	-	_	197	1 074
Executive Management Team, excl. CEO					
Chief Investment Officer (CIO)	3 411	737	_	1 273	5 421
Head of Business Support	2 054	1 342	_	971	4 367
General Counsel	2 577	836	96	1 040	4 453
Head of Communications and Corporate Governance	2 078	784	120	866	3 728
Head of Performance and Risk Management	1 975	870	120	833	3 678
Other employees	70 828	34 179		30 250	135 257
Total	88 629	40 430		37 361	166 420
Other personnel costs					3 163
Total personnel costs					169 583

Personnel costs in SEK thousand, 2022	Salaries and fees	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

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 45.

CEO

Social charges

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 12 (7) 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 SEK 70 (45) thousand, Head of Business Support SEK 5 (4) thousand, General Counsel SEK 5 (6) thousand, Head of Communications and Governance SEK 5 (6) thousand, Head of Performance and Risk Management SEK 5 (4) 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.

Overview

Mission and organisation

Investments

Sustainability

Fund governance

Directors' Report

Financial statements and notes

ncome statement

Ralance sheet

Accounting and valuation principle

Notes

Auditor's Report

Note 5 cont.

Salary exchange

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

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

Each year, Andra AP-fonden participates in a salary and benefits survey in which an independent party produces comparative statistics for different staff categories at relevant and comparable entities. The purpose of the survey is to report on market-based salary and employment conditions. For 2023, 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.

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 2023	Jan-Dec 2022
Costs for premises	8	7
Information and IT expenses	77	70
Purchased services	12	15
Other costs	11	9
Total other administrative expenses Auditors fees	108	101
Auditing assignments		
PwC	0.83	0.82
Auditing services in addition to the audit		
PwC	0.00	0.10
Total remuneration to PwC	0.83	0.92

NOTE 7 Equities and participations, listed

Amounts in SEK million	31/12/2023	31/12/2022
Swedish equities	36 476	34 234
Foreign equities	122 697	116 751
Participation in foreign funds*	-	6 853
Total	159 173	157 838
*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 that exceeds the market value of securities lent.

In 2023, 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. Since the lending programme was dormant over the turn of the year, there is no collateral received for securities lent at the end of the year.

The 20 largest Swedish and foreign holdings in terms of value are listed on pages 87–89.

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

Overview

Mission and organisation

Investment

Sustainability

Fund governance

Directors' Report

Financial statements and notes

Income statement

Balance sheet

Accounting and valuation princip

Notes

Auditor's Repor

NOTE 8 Equities and participations, unlisted

Amounts in SEK million	31/12/2023	31/12/2022
Swedish equities in associated companies	25 882	29 527
Foreign equities in associated companies and subsidiaries	29 844	33 791
Other unlisted Swedish equities and participations	_	_
Other unlisted foreign equities and participations	71 549	64 855
Total	127 275	128 173

Amounts in SEK million	Comp. reg. no.	Registered office	Number of shares	Share of capital/voting rights, %	31/12/2023 Fair value	31/12/2022 Fair value	Share- holders' equity	Profit/loss
Swedish equities in associated companies								
Vasakronan Holding AB	556650-4196	Stockholm	1 000 000	25	24 426	28 081	78 902	-10 875
4 to 1 Investments AB	559313-2490	Stockholm	6 250	25	0	0	2	-1
4 to 1 Investments KB	969795-3033	Stockholm		25	1 456	1 446	5 822	39
Total Swedish equities in associated companies					25 882	29 527		
Foreign equities in associated companies and	d subsidiaries							
Chaptwo S.à.r.l.		Luxembourg		100	1 814	2 964		
Gateway VI Co-Investment Account (AP2) L.P.	Ca	yman Islands		100	1 806	1 810		
JC Verde Co-Invest 1 L.P.		England		100	318	_		
Lewis & Clark Timberlands LLC		USA		24	1 793	1 872		
Molpus Nordic Woodlands L.P.		USA		99	1 925	1 684		
TIAA-CREF Global Agriculture LLC		USA		23	3 808	3 497		
TIAA-CREF Global Agriculture II LLC		USA		25	6 832	6 693		
U.S. Office Holdings L.P.		USA		41	3 541	5 332		
U.S. Core Office APTWO L.P. *		USA		99	5 625	7 421		
U.S. Office APTWO JV II L.P.**		USA		99	2 382	2 518		
Total foreign equities in associated companie	es and subsidiari	es			29 844	33 791		

^{*} 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, %	31/12/2023 Acquisition value	31/12/2022 Acquisition value
Five largest holdings in other unlisted foreign equities and participations				
Generate Capital, Inc.	USA	6	2 906	2 176
Riverstone Pattern Energy III, L.P.	USA	35	977	974
TIAA European Farmland Fund L.P.	Cayman Islands	43	883	883
TPG Rise Fund II, L.P.	Cayman Islands	5	878	677
Teays River Investments, LLC	USA	0.4	793	612

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

NOTE 9 Bonds and other fixed-income securities

	31/12/2023	31/12/2022
Amounts in SEK million	Fair value	Fair value
Breakdown by issuer category		
Swedish Government	4 088	4 619
Swedish municipalities	202	275
Swedish mortgage institutions	400	2 477
Other Swedish issuers		
Financial companies	8 482	10 294
Non-financial companies	275	267
Foreign governments	42 471	39 537
Other foreign issuers	67 164	55 338
Overnight deposits	_	1
Total	123 082	112 808
Breakdown by type of instrument		
Other bonds	111 399	105 979
Unlisted loans	2 479	2 326
Participation in foreign fixed-income funds	9 204	4 502
Overnight deposits	_	1
Total	123 082	112 808

Mission and organisation

Fund governance

Directors' Report

Notes

NOTE 10 Derivative instruments

		31/12/2023		31/12/2022	
Amounts in SEK million	Fair value Positive	Fair value Negative	Fair value Positive	Fair value Negative	
Equity-related instruments					
Forward contracts	2	_	-	6	
Total	2	-	-	6	
of which cleared	-	-	-	-	
Interest-related instruments					
FRAs/Forward contracts	19	-	_	39	
Swaps	-	-	_	_	
Total	19	-	_	39	
of which cleared	-	-	-	-	
Currency-related instruments					
Options, held	5	-	3	_	
Options, pledged	-	94	-	69	
Forward contracts	15 668	3 342	8 284	3 879	
Total	15 673	3 436	8 287	3 948	
of which cleared	_	_	_	=	
Total derivative instruments	15 694	3 436	8 287	3 993	

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 2023, 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.

Overview

Mission and organisation

Investments

Sustainability

Fund governance

Directors' Report

Financial statements and notes

Income statement

Balance sheet

Accounting and valuation principle

Notes

Auditor's Report

NOTE 11 Other assets

Amounts in SEK million	31/12/2023	31/12/2022
Receivables, assets sold but not settled	491	47
Other receivables	10	8
Total	501	55

NOTE 12 Prepaid expenses and accrued income

Amounts in SEK million	31/12/2023	31/12/2022
Accrued interest income	1 547	1 431
Accrued dividends	252	255
Restitutions	458	369
Other prepaid expenses and accrued income	30	24
Total	2 287	2 079

NOTE 13 Other liabilities

Amounts in SEK million	31/12/2023	31/12/2022
Liabilities, assets purchased but not settled	1	127
Accounts payable	15	8
Other liabilities*	13 300	4 035
Total	13 316	4 170

^{*} Other liabilities consist mainly of the countervalue of the cash collateral received that was booked over the turn of the year.

NOTE 14 Deferred income and accrued expenses

Amounts in SEK million	31/12/2023	31/12/2022
Accrued external management fees	0	20
Accrued interest expense on currency forwards	521	925
Other accrued expenses	38	38
Total	559	983

NOTE 15 Fund capital

Amounts in SEK million	31/12/2023	31/12/2022
Fund capital at start of year	407 112	441 045
Net payments to the national pension system		
Pension contributions received	85 004	81 822
Pension disbursements to the Swedish Pensions Agency	-89 552	-86 259
Transfer of pension entitlements to EC	-1	0
Adjustment of pension entitlements regarding previous years	-15	0
Administration payment to the Swedish Pensions Agency	-269	-252
Total net payments to the national pension system	-4 833	-4 689
Net result for the year	23 761	-29 244
Fund capital at year-end	426 040	407 112

NOTE 16 Pledged assets and contingent liabilities

Amounts in SEK million	31/12/2023	31/12/2022
Other pledged assets and contingent liabilities		
Securities on loan against cash and securities collateral received*	0	869
Collateral pledged in connection with exchange-cleared derivatives	328	464
Collateral pledged in connection with OTC derivatives (CSA contracts)**	566	963
Total	894	2 296
Commitments		
Commitments regarding future investments, unlisted holdings	37 538	32 520
Subscription commitments, certificates	4 500	4 500
New issue guarantee	-	-
Total	42 038	37 020

- Collateral received for securities on loan is SEK 0 (939) million as lending was dormant at year-end.
- ** Carrying amount of liabilities relating to cash collateral received for OTC derivatives is SEK 13 291 (4 021) million. Collateral received in the form of securities for OTC derivatives SEK 11 250 (382) 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 2023, 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 marketplaces 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 (16.0 per cent of the total portfolio), private equity funds (12.3 per cent of the total portfolio), sustainable infrastructure (2.1 per cent of the total portfolio) and private debt (1.1 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.

Overview

Mission and organisation

Investment

Sustainability

Fund governance

Directors' Report

Financial statements and notes

Income statement

Balance sheet

Accounting and valuation principal

Notes

Auditor's Report

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 2023, the valuation at 30 September 2023 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 2019 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

	31/12/2023			
	Level 1	Level 2	Level 3	Total fair value
Equities and participations, listed	159 173	-	-	159 173
Equities and participations, unlisted	_	_	127 275	127 275
Bonds and other fixed-income securities	111 413	9 190	2 479	123 082
Derivative assets	_	15 694	-	15 694
Derivative liabilities	-	-3 436	_	-3 436
Financial assets and liabilities, measured at fair value	270 586	21 448	129 754	421 788*

	31/12/2022			
	Level 1	Level 2	Level 3	Total fair value
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*

* 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 macroeconomic 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.

Overview

Mission and organisation

Investments

Sustainability

Fund governance

Directors' Report

Financial statements and notes

Income statement

Balance sheet

Accounting and valuation principle

Notes

Auditor's Report

fixed-income securities

Note 17 cont.

CHANGE DURING 2023 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	-	128 173	2 326	130 499
Invested	_	13 169	133	13 302
Sold/repaid during the year	-	-5 493	-	-5 493
Realised profit	-	3 240	-	3 240
Unrealised change in value	_	-11 814	20	-11 794
Reclassifications	-	_	-	-
Carrying value at year-end	-	127 275	2 479	129 754

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

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 -2.8 billion and SEK 3.7 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.

Overview

Mission and organisation

Investments

Sustainability

Fund governance

irectors' Report

Financial statements and notes

ncome statement

Balance sheet

Accounting and valuation principle

Notes

Auditor's Report

Equities, participations and fixed-income securities

ANDRA AP-FONDEN

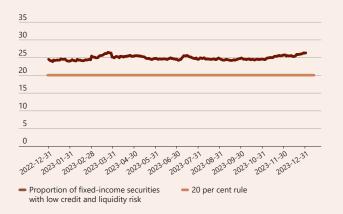
NOTE 18 Financial risks

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 2023, 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 60–64.

LIQUIDITY RISK, %

Amounts not netted in



FINANCIAL ASSETS AND LIABILITIES THAT ARE NETTED IN THE BALANCE SHEET OR SUBJECT TO OFFSETTING AGREEMENTS

				the balance sh				
31/12/2023	Gross amount	Netted amounts in the balance sheet	Net amount in the balance sheet	Set-off of financial instruments by agreement	Collateral received/ given	Net amount after set-off	Other*	Total in the balance sheet
ASSETS								
Derivatives	15 673	_	15 673	-1 214	-24 541	-10 082	21	15 694
Total	15 673	_	15 673	-1 214	-24 541	-10 082	21	15 694
LIABILITIES								
Derivatives	3 436	_	3 436	-1 214	-566	1 656	-	3 436
Total	3 436	_	3 436	-1 214	-566	1 656	-	3 436

				Amounts not netted in the balance sheet				
31/12/2022	Gross amount	Netted amounts in the balance sheet	Net amount in the balance sheet	Set-off of financial instruments by agreement	Collateral received/ given	Net amount after set-off	Other*	Total in the balance sheet
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

 $^{^{\}star}$ 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	31/12/2023	31/12/2022
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	75	76
Shareholder loans, including accrued interest	2 562	2 368
Shareholder contribution/repayment during the year	16	189
Investment commitment	253	392
4 to 1 Investments AB, 25 per cent		
Shareholder contribution	0	-
4 to 1 Investments KB, 25 per cent		
Capital contribution	0	598

Overview

Mission and organisation

Investments

Sustainability

Fund governance

Directors' Repor

Financial statements and notes

ncome statement

Balance sheet

Accounting and valuation principle

Notes

Auditor's Renoi

The Annual Report for 2023 has been approved by the Board of Directors

Gothenburg, 7 February 2024

Jan RoxendalIngrid AlbinssonMikael Bohman

Chair Vice Chair

Hanse Ringström Agneta Wallmark Rikard Andersson

Torbjörn Dalin Åsa Erba Stenhammar Anna-Karin Jatko

Our audit report was submitted on 7 February 2024

Helena Kaiser de Carolis

Authorised Public Accountant Appointed by the Swedish Government Peter Nilsson

Authorised Public Accountant
Appointed by the Swedish Government

Overview

Mission and organisation

Investments

Sustainability

Fund governance

Directors' Report

Financial statements and notes

Income statement

Balance sheet

Accounting and valuation princip

Notes

Auditor's Repor

Auditor's Report

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

Auditor's Report on the annual financial statementsOpinion

We have audited the annual report of Andra AP-fonden for 2023. The Fund's annual report is presented on pages 47–84 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 2023 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 1–46 and 87–89. 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 asses 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.

Overview
Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Financial statements and notes

Income statement

Ralance sheet

Accounting and valuation principle

Notes

Auditor's Report

Equities, participations and fixed-income securities

- 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 2023.

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 2023 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.

Overview

Mission and organisation

Investments

Sustainability

Fund governance

Directors' Report

Financial statements and notes

ncome statement

Balance sheet

Accounting and

Notes

Auditor's Report

Equities, participations ar fixed-income securities

Gothenburg, 7 February 2024

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	0.65	7 360 927	1 496	0.65	Finance
Assa Abloy B	0.45	5 023 346	1 458	0.31	Industry
Volvo B	0.27	5 568 775	1 457	0.09	Industry
SEB A	0.49	10 399 301	1 443	0.49	Finance
Evolution Gaming Group	0.55	1 179 170	1 418	0.55	Consumer discretionary goods
Hexagon B	0.39	10 463 810	1 266	0.28	IT
Sagax B	0.86	4 176 888	1 159	0.58	Real estate
Investor B	0.16	4 893 781	1 143	0.03	Finance
Atlas Copco A	0.11	5 448 794	946	0.16	Industry
Fastighets AB Balder B	0.94	10 793 185	772	0.61	Real estate
Hexpol AB	1.84	6 323 540	771	1.32	Materials
NCAB Group	5.40	10 098 357	740	5.40	IT
Sandvik	0.26	3 302 575	720	0.26	Industry
Epiroc	0.29	3 537 295	715	0.41	Industry
SKF B	0.76	3 480 336	701	0.48	Industry
Addtech	1.12	3 063 322	678	0.79	Industry
Electrolux Professional	4.23	12 149 652	668	3.38	Industry
Trelleborg B	0.77	1 969 877	665	0.39	Industry
Addnode Group	5.59	7 516 473	641	4.42	IT
Svenska Handelsbanken A	0.29	5 719 436	626	0.29	Finance
					Fina

^{*} 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.

Overview

Mission and organisation

Investments

Sustainability

Fund governance

irectors' Report

Financial statements and notes

come statement

Balance sheet

Accounting and valuation principle

Votes

Auditor's Report

ANDRA AP-FONDEN'S HOLDINGS IN LISTED FUNDS

Name	Holding, participations	Fair value, SEK million
CS Iris S Fund Ltd.	246 933	3 508
Elementum Zephyrus Total Return Cat Bond	134 161	1 992
Gam Fcm Cat Bond Inst Initial Series	826 478	1 719
Gam Fcm Cat Bond 2023 Series 4	750 801	837
Gam Fcm Cat Bond 2023 Series 2	500 000	574
Gam Fcm Cat Bond 2023 Series 3	500 000	564
Gam Fcm Cat Bond 2023 Series 10	3 039	3
Gam Fcm Cat Bond 2023 Series 7	2 613	3
Gam Fcm Cat Bond 2022 Series 9	513	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	1
Gam Fcm Cat Bond 2023 Series 1	465	1

Overview

Mission and organisation

nvestments

Sustainability

Fund governance

Directors' Report

Financial statements and note

Income statement

Balance sheet

Accounting and

valuation principles

Notes

Auditor's Report

ANDRA AP-FONDEN'S 20 LARGEST FOREIGN SHAREHOLDINGS*

Company name	Number of	Market value, SEK million	Sector
Nordea Bank	10 044 225	1 253	Finance
AstraZeneca	442 714	599	Healthcare
Better Collective	2 170 724	557	Consumer goods
ABB	1 185 362	528	Industry
Mediatek	1 076 000	359	IT
Power Grid Corp Of India	11 876 269	341	Power supply
Quanta Computer	4 481 000	330	ΙΤ
New Oriental Education & Technology Group	4 550 600	324	Consumer discretionary goods
Raia Drogasil	5 082 124	310	Consumer goods
Lite-On Technology	7 548 000	290	IT
Wiwynn	468 000	280	IT
WPG Holdings	10 430 000	279	IT
Accton Technology	1 610 000	276	IT
Broadcom	24 500	276	IT
Kambi Group	1 615 269	271	Consumer discretionary goods
Novatek Microelectronics	1 551 000	263	IT
Inventec	14 956 000	259	IT
			Consumer
Vipshop Holdings	1 444 900	259	discretionary goods
Delta Electronics	2 462 000	253	<u>IT</u>
McKesson	53 800	251	Healthcare

^{*} The table lists the Fund's 20 largest holdings in foreign equities in terms of value.

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

ANDRA AP-FONDEN'S HOLDINGS IN BONDS AND FIXED-INCOME SECURITIES

Swedish nominal bonds, five largest holdings

Bond	Fair value, SEK million
Swedish Covered SBAB #146	1 170
Stadshypotek AB #1593	1 121
Swedish Govrnmnt #1062	1 024
Stadshypotek AB #1592	906
Swedish Covered SBAB #147	864

Global credits, five largest holdings

Bond	Fair value, SEK million
Sprint Capital	441
FS KKR Capital	438
AstraZeneca	432
Pfizer	423
Regeneron Pharm	416

Global government bonds, five largest holdings

Bond	Fair value, SEK million
JAPAN GOVT 10-YR JGB 0.1 12/20/30	421
FRANCE O.A.T. FRTR 1 3/4 06/25/39	401
JAPAN GOVT 10-YR JGB 0.1 03/20/28	393
UK TSY GILT UKT 0 7/8 07/31/33	325
JAPAN GOVT 5-YR JGB 0.1 12/20/25	286

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

Mission and organisation
Investments
Sustainability
Fund governance
Directors' Report
Financial statements and notes

Income statement

Balance sheet

Accounting and valuation principle

Votes

Auditor's Repor

