



# Content

## Introduction

■ From mission to return	1
■ Highlights of 2008	2
■ Message from the Managing Director	4
■ 2008 in perspective	6

## The mission

■ The mission	10
■ The mission – to contribute to the stability of the pension system	11
■ Anna Hedborg on the pension system	13
■ Do the AP funds affect the amount of income pension?	14

## Goals and strategies

■ Goals and strategies	16
■ Strategies for realizing the mission	17
■ The pension system demands high returns	19
■ Active management – a key component of the management model	23
■ Risk management	24
■ Corporate governance	26
■ The employees – our most important resource	28

## Organization

■ Organization	30
■ Management organization	31
■ Investment operations	33

## Operations and results in 2008

■ Operations and results in 2008	36
■ Fund performance	37
■ Five-year overview	39
■ Total return	40
■ Active return	42
■ Internal management	44
■ External management	47
■ Portfolio composition	50
■ Corporate governance in 2008	53
■ Accounting and valuation principles	55
■ Income statement	57
■ Balance sheet	58
■ Notes	59
■ Statement of assurance	65
■ Audit report	66
■ Fund management report	67
■ Report on internal control and risk management	70
■ Board of Directors	72
■ Executive Management Team	73

## From mission to return

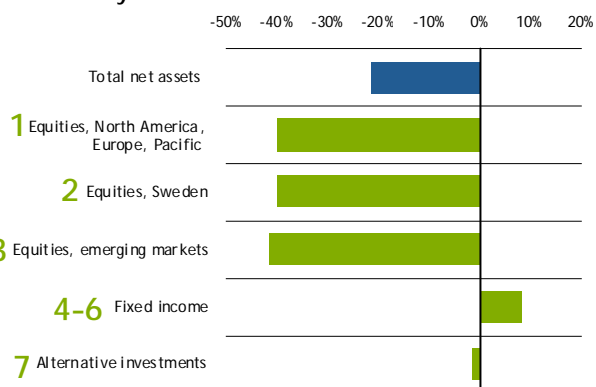
The diagram illustrates the most critical steps in the analysis performed by the Fund to fulfil its mission and deliver the long-term total return required by the pension system. Each new section begins with a brief description of the part of the flow between the Fund's mission and return that is covered in that section: The mission, goals and strategies, organization, and operations and results in 2008.



## Highlights of 2008

- 2008 was an extremely turbulent year characterized by dramatic price falls and poorly functioning financial markets.
- For 2008 the Fund posted a net investment loss of SEK 48.0 billion, equal to a total return of -21.9 percent after expenses. This negative value growth in the Fund's portfolio reflects the impact of the global financial crisis and above all developments in the international equity markets.
- The Fund's active foreign exchange management, fixed income management and external management all outperformed their indices. Despite this, the Fund's overall active management returned a negative -0.69 percentage points. However, over the past five years active management has contributed an average of 0.3 percentage points annually, equal to total investment income of SEK 3 billion.
- At year-end 2008 Första AP-fonden had net assets under management of SEK 171.6 billion, a decrease of SEK 47.2 billion during the year.

### SEK return by asset class in 2008 %



### Active return on listed assets in 2008, %-points

Contribution from:	Per unit <sup>1</sup>	Total
Global macro allocation	-0.25	
Tactical asset allocation	-0.26	
Intern equity management, Sweden	-1.30	
Intern equity management, Europe	-0.62	
Internal fixed income management	0.35	
Foreign exchange and treasury	0.18	
<b>Total internal management</b>		<b>-0.66</b>
External management	0.36	
<b>Total internal and external management</b>		<b>-0.52</b>
Securities lending		-0.10
Other		-0.07
<b>Total active return</b>		<b>-0.69</b>

<sup>1</sup> Active return relative to each unit's index.

### Five-year overview

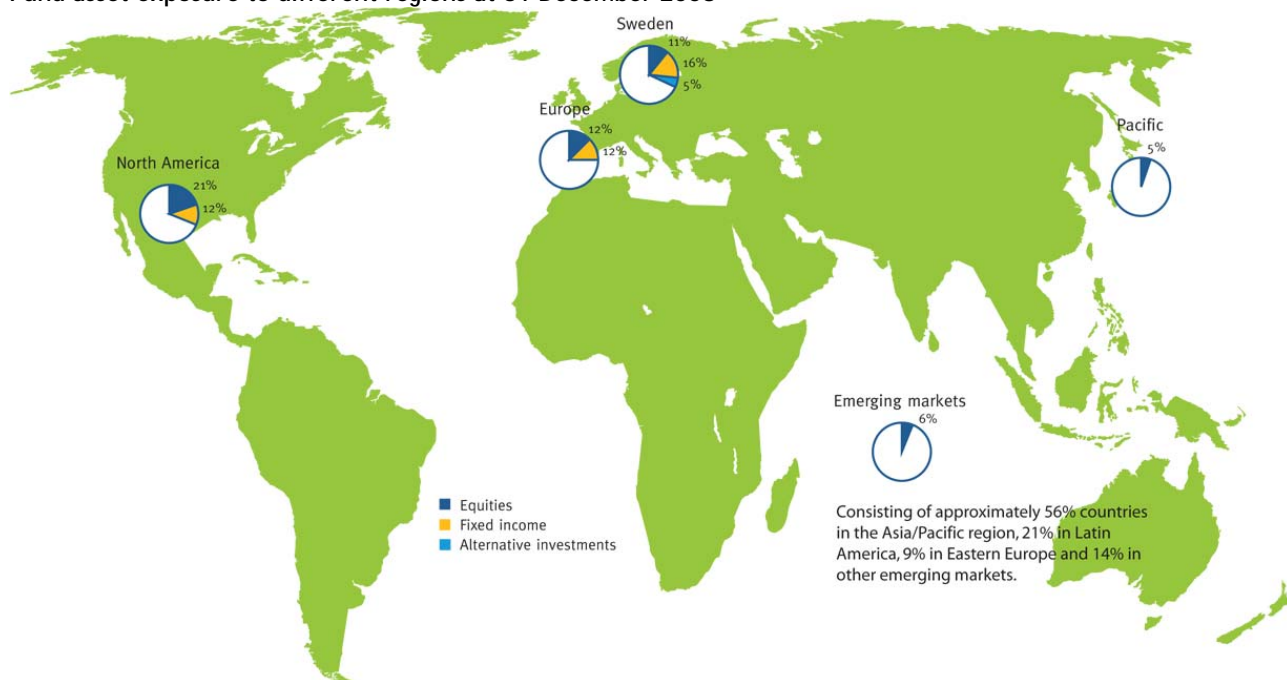
	2008	2007	2006	2005	2004
Closing net assets, SEK bn	171.6	218.8	207.1	187.3	156.8
Net inflow, SEK bn	0.8	2.0	1.7	2.9	1.6
Net investment income, SEK bn	-48.0	9.7	18.2	27.6	15.9
Total return before expenses, %	-21.7	4.8	9.8	17.5	11.4
Active return before expenses <sup>1</sup> , %	-0.7	0.4	0.6	1.5	0.0
Expense ratio, total, %	0.16	0.15	0.15	0.15	0.17
Expense ratio excl. commission costs, %	0.09	0.08	0.08	0.08	0.09
Active risk, realized, %	1.0	0.5	0.6	0.4	0.3
Currency exposure, %	22.2	19.2	16.2	20.5	20.9
Share of active management <sup>2</sup> , %	97.4	97.5	98.0	94.8	77.4
Share of external management, %	39.6	36.0	34.2	37.7	24.0

For definitions, see glossary.

<sup>1</sup> Active return refers to the listed portion of the portfolio.

<sup>2</sup> Including enhanced mandates.

## Fund asset exposure to different regions at 31 December 2008



## Asset classes

	Equities	Description	% of strategic benchmark, 2008	% return, 2004-2008
<b>1</b>	North America, Europe, Pacific	Europe: Internal management, active mandate with a focus on large caps. North America: External management, two mandates. Small caps, active mandate; large caps, enhanced and active mandates. Pacific: External management, active mandates.	38%	12,1   14,3   13,7   3,8   -39,9 04 05 06 07 08
<b>2</b>	Sweden	Internal management, active mandate. Focus on large and mid caps.	11%	26,6   34,4   24,9   -3,8   -40,0 04 05 06 07 08
<b>3</b>	Emerging markets	External management, passive mandate through June 2006. Since that time, one passive and several active mandates.	6%	15,8   62,5   12,5   30,6   -41,5 04 05 06 07 08
<b>Fixed income</b>				
<b>4</b>	Nominal Swedish	Internal management, active mandate	6%	6,9   4,0   1,3   4,2   8,3 04 05 06 07 08
<b>5</b>	Nominal non-Swedish	Internal management, active mandate for all non-Swedish fixed income except US and European credit bonds. These are managed externally; US credit bonds, enhanced mandate and European credit bonds, active mandate since 2008.	24%	
<b>6</b>	Index-linked fixed income	Internal management, active mandate.	10%	
<b>Alternative investments</b>				
<b>7</b>	Alternative investments	Unlisted holdings in real estate, private equity and hedge funds.	5%	13,2   47,6   38,4   18,6   -3,5 04 05 06 07 08
<b>Foreign exchange</b>				
<b>8</b>	Foreign exchange	In order to reduce volatility in total return over time, the Fund maintains an open currency exposure in the strategic benchmark equal to approximately 20 percent of the market value of net assets. Internal management, active mandate.	20%	

## Message from the Managing Director

The year now behind us was the most turbulent in the Fund's history. Now we are changing our investment model and mobilizing around a common goal – to boost total return by increasing the focus on strategic asset allocation, the area with the greatest influence on the Fund's ability to deliver long-term returns.



The chain of events in the financial markets during 2008 was extreme, with unusually high volatility and massive value losses across the majority of asset classes. Indeed, many stock exchanges around the world plummeted by up to 40 percent. The foreign exchange markets fluctuated wildly with dramatic weakening of currencies like the Swedish krona, and movements in the fixed income markets were more erratic than we have ever seen before.

The triggers behind these events can be found in the combined effects arising from many years of risk-willing capital and low interest rates that fuelled an explosive credit expansion

and the gradual build-up of huge imbalances. When the reversal arrived, declining risk appetite and higher interest rates made the process painful. The decision not to save Lehman Brothers quickly launched the system into a full-blown global crisis that called for massive government bailout measures. The financial crisis has now uncovered structural problems in the real economy and led to a global recession.

### Negative growth

The events of the past year have naturally affected the Fund's portfolio. For 2008 the Fund posted a total return of -21.9 percent, where active management made a negative contribution for the first time in five years despite the fact that three of the Fund's investment units, internal foreign exchange management and treasury, internal fixed income management and external management, all outperformed their indices and contributed positively to active return.

The year's stock market plunge has obviously also had repercussions for the pension system through the low returns posted by all of the AP funds. But it is important to remember that the pension system does not rely solely on the AP funds, which make up only around 13 percent of its total assets. For several years, development for other assets and liabilities has also been weaker than anticipated, which has impacted the pension system to an equal degree. The end result is that the balance mechanism will be activated and thereby reduce pension disbursements in 2010. And while it is unfortunate that pension benefits will be negatively affected, we should be grateful that the Swedish pension system contains a balancing mechanism to ensure its long-term sustainability.

### Time for reflection

The process of reassessing the Fund's long-term investment strategy was completed in the spring and one conclusion was that the Fund should raise the share of real assets in the portfolio. A cautious increase in equity exposure was therefore started, but market development in the third and fourth quarters made us more risk-averse and conservative and the equity share at year-end remained at around 60 percent. However, we have exploited many of the opportunities created by the credit crisis and today have a clearly higher exposure to credit bonds than previously.

Return on net assets since the Fund's inception in 2001 – an average of 1.2 percent annually – is something we are clearly

not satisfied with. We are now taking steps to analyze and make use of experiences and lessons learned from the financial crisis. Although we did identify several risks at an early stage, we deemed the probability of a system crisis very low at that time and miscalculated the scope of the crisis and its spillover effects.

One conclusion from the financial crisis is the need to reassess several accepted truths related to fundamental financial theories. For example, in 2008 the advantages of risk diversification were less pronounced when the majority of asset classes lost value simultaneously. A lack of liquidity in many markets has at times made it very difficult for us to act in line with our management model and transaction costs have periodically been very high. In view of this and other factors, there is reason to objectively rethink the management model and analyze how the Fund can best create the conditions for successful management with a higher degree of flexibility.

#### **Stronger focus on strategic asset allocation**

We have decided to reorganize the Fund in order to strengthen the focus on strategic asset allocation, the area with the greatest influence on the Fund's ability to deliver the long-term returns required by our mission. This means that the expertise and experience that were previously used so successfully in internal active management will now be shifted to strategic asset allocation.

Other effects of the change are that the Fund's management model will be simplified and that all parts of the portfolio under external management will be reviewed. This decision is in line with our overall ambition to manage the Fund's assets cost-efficiently, without compromising the potential to achieve a good return.

The reorganization will give rise to redundancies that will be handled through individual solutions and will affect some 20 employees. We deeply regret having to lose skilled and

competent people, but find ourselves in a situation where we need to act decisively to ensure the conditions for a healthy long-term return with reasonable costs. The lower ambition for active management will lead to annual cost savings equal to around 25 percent of operating expenses. Commission costs will also be affected, though it is impossible to say to what extent before the review of our external management is completed.

#### **Crisis also creates opportunities**

Our overall portfolio strategy is unchanged and means that we will continue striving to raise the long-term share of real assets in our portfolio, such as equities, credit bonds and real estate. The crisis has naturally also given rise to interesting investment opportunities, and in 2009 we will supplement the portfolio with international real estate and exploit the potential for opportunistic investments. Our cautious private equity strategy, to gradually increase our exposure, stands firm.

Active ownership with respect to corporate, environmental and social governance will continue to be a central component of the Fund's management model and we have recently launched a new ownership policy that will enable us to raise our level of commitment even outside Sweden.

In conclusion, I would like to thank all of the Fund's employees for their valuable contributions in the face of crisis during the past year.

Stockholm, February 2009



Johan Magnusson

## 2008 in perspective

In 2008 we were a hair's breadth from a total collapse of the global financial system. The dramatic chain of events and its repercussions on both the real economy and the financial markets will most likely have far-reaching consequences in the years ahead.

### An extreme year

The year's financial turmoil was preceded by several years of booming economic development in which globalization was a key driver. Growth optimism and low interest rates created incentives to borrow, spend and invest. There was abundant access to cheap capital, but also willing lenders.

Eventually, however, it became clear that lending was growing out of control. Around year-end 2007 the relentless credit expansion in the banking systems of the US and other Western nations had pushed down the solvency ratio – the relationship between total equity and distribution credit – for certain banks and financial firms to dangerously low levels. As a result, the creditworthiness of many large banks and residential mortgage institutions came under scrutiny.

Following a turbulent start to the year, the US Federal Reserve acted in March to save Bear Stearns, a major investment bank in New York. The rescue created the illusion of security, temporarily boosting trust in the banking and financial sector. Although the markets and economic outlook appeared to have normalized, the situation in the credit markets soon worsened again and the availability of credit between banks and to the public tightened progressively.

### Changed expectations

When Lehman Brothers declared bankruptcy in September, waves of panic reverberated throughout the financial markets. Something the market never believed could happen, that the authorities would allow a major bank to topple, had in fact occurred. The bankruptcy reshaped all rules and expectations.

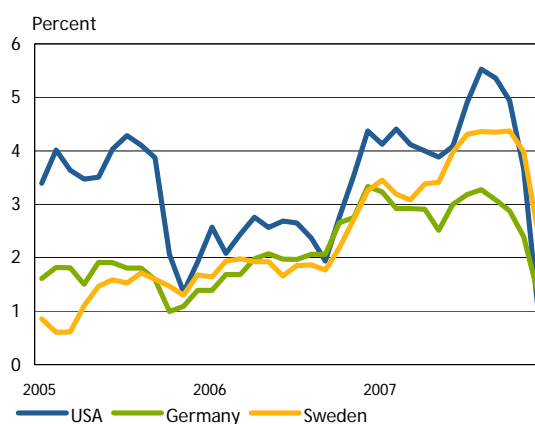
The private sector, the public, pension fund managers and other asset managers lost all desire to extend credit to banks and businesses and the focus shifted to saving capital and avoiding credit losses. Government borrowing was the only credit that was viable and accepted. Reactions to the bankruptcy and its spillover effects were so powerful that few had been able to anticipate them, and the authorities were ill prepared for the instability that ensued.

In order to avoid a breakdown in the financial system, national governments were forced to launch rapid rescue initiatives. In nearly all Western countries, the local banks were furnished with various types of government guarantees. There were also cases of government takeovers or forced mergers and the injection of new equity capital. Aside from the collapse of the Icelandic banking sector, these efforts kept the financial system largely intact. In spite of all measures, however, the credit markets remained under an enormous strain that was visible in very high interest rate margins on virtually all loans not backed by government guarantees.

### Turnabout

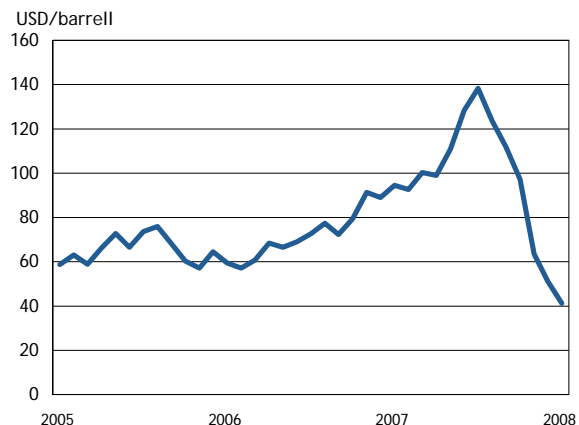
In retrospect, the inflationary assumptions and interest rate hikes made by both the European Central Bank and the Central Bank of Sweden as late as summer proved misguided. By autumn, steeply falling global equity markets and a sharp turnabout in the price trend for oil and other commodities, from sharp rises to vertical falls, sparked fears of deflation rather than inflation.

### Change in the consumer price index



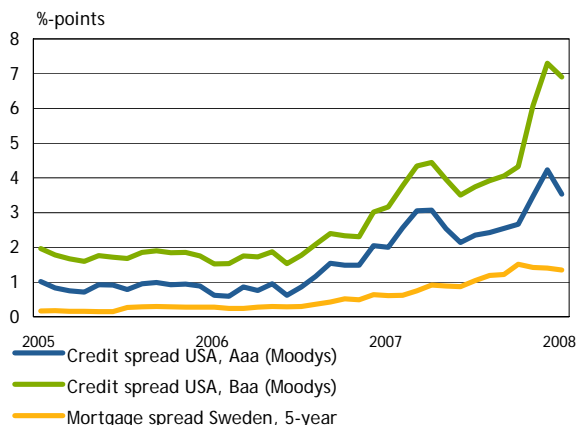
Source: Reuters EcoWin

## Crude oil (Brent Crude)



Source: Reuters EcoWin

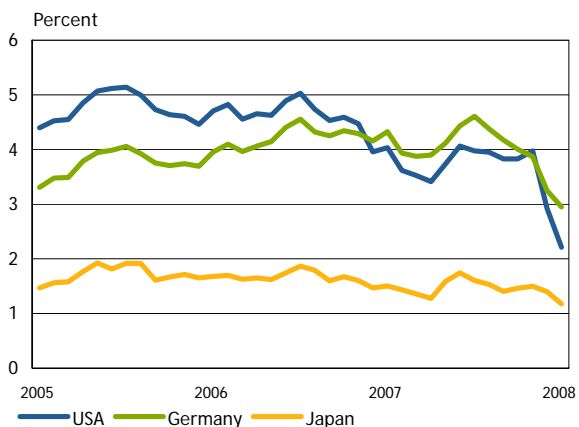
## Credit spreads



Source: Reuters EcoWin and Moodys

Several interest rate cuts in the USA and Europe in the latter half of the year and a downward slide in bond rates signalled the start of a recession. By year end, the key interest rate in the USA was slashed to nearly zero. Long-term bond rates fell by over 1 percentage point over the year and reached a new historical low of around 3 percent. A radical reassessment of corporate earnings forecasts, global trade growth and economic conditions took place in pace with a rising level of financial unrest. Hopes that any part of the global economy or any activity would remain unscathed were dashed. On the contrary, developments clearly illustrated a global interdependency.

## 10-year bond rates



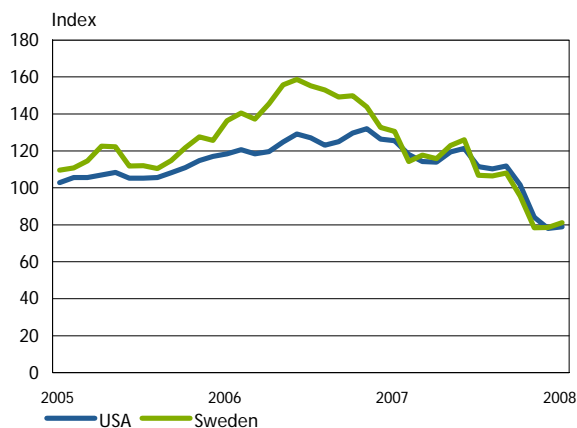
Source: Reuters EcoWin

## Falling asset prices

Asset prices fell across all asset classes. In the first half of the year raw material producing countries and emerging markets were regarded as winners in the global economy, but later saw their economies and asset values tumble as steeply, or more so, than those of high-income nations.

The assets that benefited most from cheap credit were hardest hit in the subsequent downturn. The housing markets in many countries nosedived and increased the pressure on households. At the end of the year this caused households and companies to significantly lower their expectations and retrench. Economic activity slowed dramatically during the autumn, causing what seems as the worst economic slowdown since the Second World War.

## Stock market: MSCI index, local currency

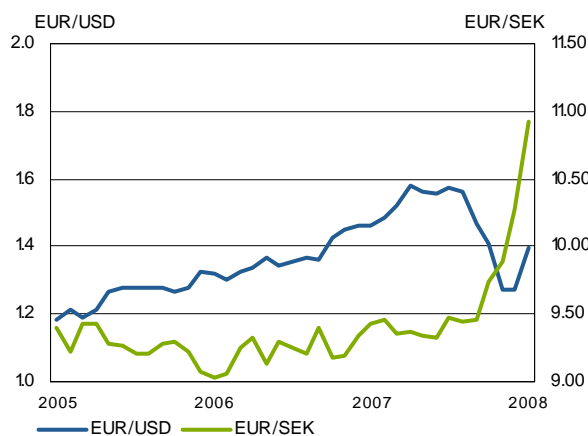


Source: Reuters EcoWin

The stock market crash in the USA and several other countries in 2008 was on the same scale as in the depression years of the 1930s. A broad-based stock index like the MSCI US fell by 37 percent and the comparable index in Sweden fell by 38 percent. Movements in the foreign exchange market were also

violent, with the US dollar first eroding by 9 percent against the euro only to climb back by more than 20 percent at the height of the financial crisis. The Swedish krona weakened against all currencies, by as much as 50 percent against the Japanese yen and by 16 percent against the euro.

## Exchange rates



Source: Reuters EcoWin

## The Fund's activities

In the spring of 2008 Första AP-fonden completed a new ALM study aimed at reassessing the Fund's long-term investment orientation. The study showed that the Fund needed to raise the share of real assets, such as equities, in its portfolio in order to create the long-term return of 5.5 percent necessary to fulfil its mission (see section [Strategies for realizing the mission](#)).

Before beginning the implementation of this new portfolio in May, the Fund studied the imbalances described above, trends and development in the equity and fixed income markets over the past few years, in which various scenarios were analyzed. Based on these the Fund decided to carry out the implementation successively throughout the remainder of 2008, since a scenario containing aspects of the financial crisis that later arose was deemed highly improbable. In view of later developments, it would have been more prudent to wait. The implementation was halted in September, partly in response to widespread uncertainty about stock market development and partly due to high volatility and low liquidity in many markets.

### Limited credit losses

The year's massive value losses and poorly functioning financial markets have severely impacted the Fund's portfolio. The net investment loss of SEK 48.0 billion, equal to a decrease of nearly 22 percent, is above all attributable to development in the equity market, which declined by 40 percent overall.

The Fund's strategy to spread risks across many asset classes and regions in order to create a high and stable return over time did not produce satisfactory results in the past year. When diversification effects were needed most, they were least effective, since all risky assets have essentially fallen to the same extent. The diversification strategy also relies on liquid markets, a condition that was lacking in the latter half of the year.

The Fund has always taken a cautious stance toward investment in structured products, due to the difficulty of assessing and monitoring the risks associated with these. Despite this, the Fund has been affected by two cases of insolvency, of which one was connected to the Lehman bankruptcy. Fortunately, the Fund's credit losses were limited to SEK 0.5 billion.

### Dealing with the financial crisis

The autumn's turmoil in the financial markets altered the underlying conditions for the Fund's asset management. Impaired liquidity in the financial markets, rising costs, higher risks in exposure to derivative instruments and uncertainty about bank solvency demanded changes in the Fund's investment process.

Transaction volumes decreased, partly through a decision to postpone implementation of the new ALM portfolio, and active management was also pursued with greater caution.

The Fund's day-to-day management involves a large number of transactions with banks and financial institutions. In the uncertainty that arose during the autumn regarding the financial health of individual banks, the Fund took a number of steps to reduce risk exposure to these. Counterparty limits for banks and financial institutions were continuously reviewed and lowered and the Fund cut back its trading in derivative instruments. All cross-currency transactions were paid via CLS Bank, since this makes it possible to net buy and sell transactions in the same currency and thereby reduce settlement risk. Furthermore, the Fund's large currency hedging portfolio was distributed more evenly between selected banks.

### Time for reflection

When the worst of the storm in the financial system has died down, a number of conclusions can be drawn. The USA in particular, but also the UK and several countries in the Mediterranean and Eastern Europe, have been able to live beyond their means thanks to the availability of cheap credit. This easy credit has also led to the postponement of sorely needed structural changes. The countries that have exported

this capital, regardless of low returns, have also played a part. A structural imbalance has accumulated as economies like the USA produce too little in relation to their consumption, while other countries, primarily China, produce more than they consume in order to meet this excess demand.

Interest rate policy in the USA and therefore also other parts of the world has been overly lax for several years, further adding to the creation of imbalances. The financial system has been weakened by its own mistakes. Not even well informed participants, such as central banks, seemed to understand what was happening, and several of them raised interest rates and warned of inflationary risks just a few months before the system's near collapse.

### **Market collapse**

Regulation and risk controls in the financial system proved to have grave shortcomings that were further aggravated by a conviction that the markets would always remain liquid. Market prices were previously regarded as reliable reference for valuations, regardless of the size of asset portfolios. When liquidity in the markets dried up and the price of securities was more an expression of forced sales than a fundamental belief in the value of an asset, valuation losses arose that would have been manageable under more normal circumstances. The common assumption that the markets will always function and show prices that reflect the actual value of a security proved false.

In retrospect, it seems that many investment banks in particular have been overly risk-seeking. It is also clear that the credit rating institutes made serious errors. The events of recent years can be seen as a failure for both economic policy at the global level and for the international capital markets. Far too much capital has been channelled to the wrong users at the wrong price.

### **New market conditions**

In the market correction now underway, the global economy must be rebalanced. Credit-financed demand should, and is expected to, decrease. This will require countries like China, Japan, Germany and even Sweden, which have a savings surplus, to pursue a policy that stimulates investment and spending rather than the export of capital. Banks in several countries, not least the USA, are still undercapitalized and incapable of granting even normal credit. Measures to restore

these functions will require the injection of new working capital.

The general trend in which many players are trimming their balance sheets will remain troublesome. Households that previously expected to live off the value appreciation on their homes and equities will now need to save more.

An interweaving of markets and financial policies is underway and is leading to the formulation of new rules for the markets. Independent market pricing was long considered infallible, but is no longer. Regulation and political intervention of the type already seen will continue, at least for a time and the mutual interdependency between markets and political policy will also increase. For example, it is unlikely that any major bank will be permitted to go under now, and this protection itself can lead to new problems such as conflicts of interest further down the road. There will be an increased risk of moral hazard. In the process of change that we are forced to undergo, the risk for errors and missteps is high.

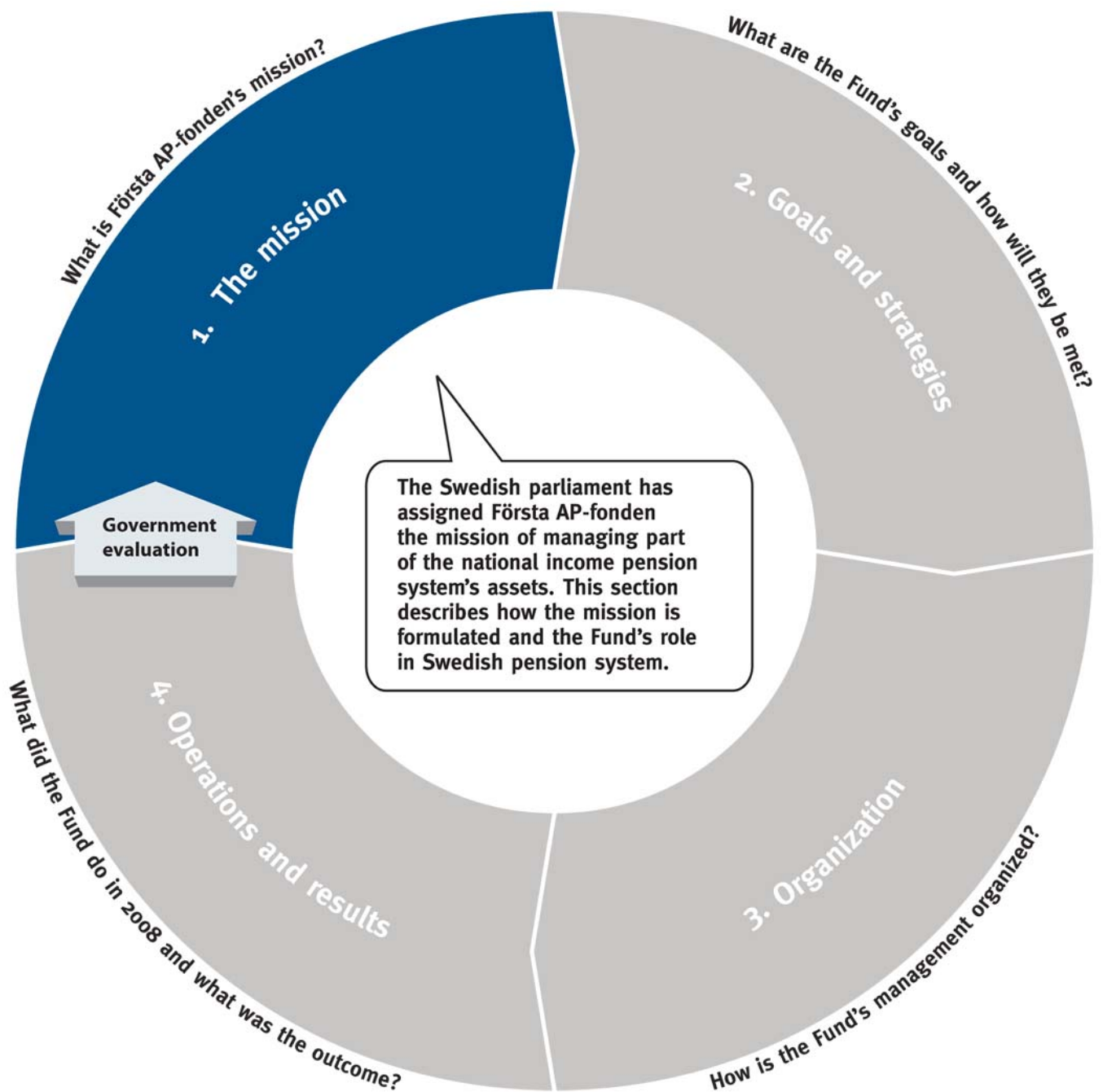
Budget deficits will widen in most countries, in some cases dramatically, which can further exacerbate financial problems. The risk for additional bankruptcies and corporate downsizing remains significant and rising unemployment rates are heightening the risk for protectionist policies. The foreign exchange markets can set off various competing devaluations in reaction to problems in individual countries.

### **Investment opportunities**

In the present situation, risk premiums in the capital markets have risen and are expected to remain high until various problems have been addressed. In this respect, the current climate offers opportunities for an investor like Första AP-fonden.

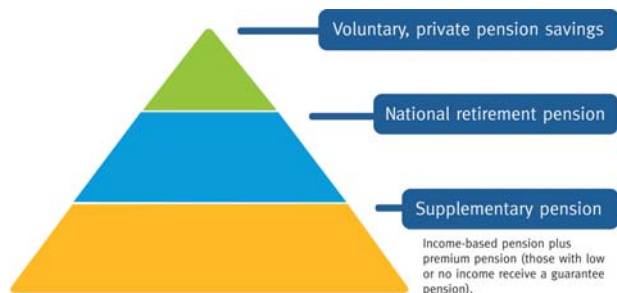
However, the poor risk rewards and low returns on assets during recent years call for a reassessment of the assumptions underlying this analysis. What return can an asset owner expect in this environment? The new conditions and insights must be evaluated. The Fund's long-term perspective should provide the necessary endurance to prosper in this new environment, despite all that has happened. At the same time, the current uncertainty about, and difficulty of, predicting future development present a major challenge.

# The mission



## The mission - to contribute to the stability of the pension system

The old-age pension system in Sweden is made up of three components – the national retirement pension system, supplementary occupational pension and voluntary private pension savings. The AP funds are part of the national retirement pension system, which will be discussed exclusively in this section.



The Swedish pension system can be likened to a pyramid in which the national retirement pension forms the base, the supplementary occupational pension comprises the mid-layer and the top consists of voluntary, private pension savings.

### The national pension system

A widely supported parliamentary decision in 1999 led to the reform of the Swedish national pension system. In connection with the reform, the AP funds were reorganized and given new mission directives and investment rules with effect from 1 January 2001. The task of the AP funds is to maximize long-term return, with a low level of risk, for the benefit of those insured in the retirement pension system.

The national pension system (excl. guarantee pension) is completely autonomous from the national budget and is divided into two tiers, a pay-as-you-go component where the paid-in pension contributions are used to finance current income pension benefits and a fully funded system where pension disbursements are based on individual savings invested in PPM funds. Both are financed by contributions representing 18.5 percent of the employees' gross salary and other taxable benefits that are paid in by the employer each month. Most of the pension contributions that are paid in, 16.0 percent of the 18.5%, go to the income pension system to which Första AP-fonden belongs. This means that the Fund manages pension capital on behalf of every person who is, or has ever been, employed in Sweden.

### Första AP-fonden – a buffer in the income pension system

The income pension system is a so-called pay-as-you-go system in which the pension contributions that are paid in every month are used to finance income pension disbursements

to those who are already retired. In 2008 pension contributions marginally exceeded pension disbursements, but as of 2009 and for many years into the future, disbursements will exceed contributions due to an increased number of pensioners when the post-war generation retires. However, this effect was taken into consideration when the income pension system was designed. Five buffer funds, the First, Second, Third, Fourth and Sixth National Pension Funds, were created to manage the surplus that was previously found in the system with the intention of using their returns and assets for payment of pensions during periods with a deficit.

The income pension system has a built-in mechanism that prevents pension disbursements from exceeding the system's long-term capacity, so-called automatic balancing. If the assets of the pension system fall below its liabilities, the balance mechanism is activated. Read more about the effects of balancing on the pension system in the following section.

### Return – no industrial or economic influence

The First to Fourth AP funds (AP1-AP4) have a common mission and operate on mutually competitive terms. Their mandate is regulated by the Swedish National Pension Funds Act (2000:192192), which states that “the mission [of the AP funds], given a low risk level, is to maximize long-term return for the benefit of those insured in the retirement pension system.” (Chapter 4, section 1).

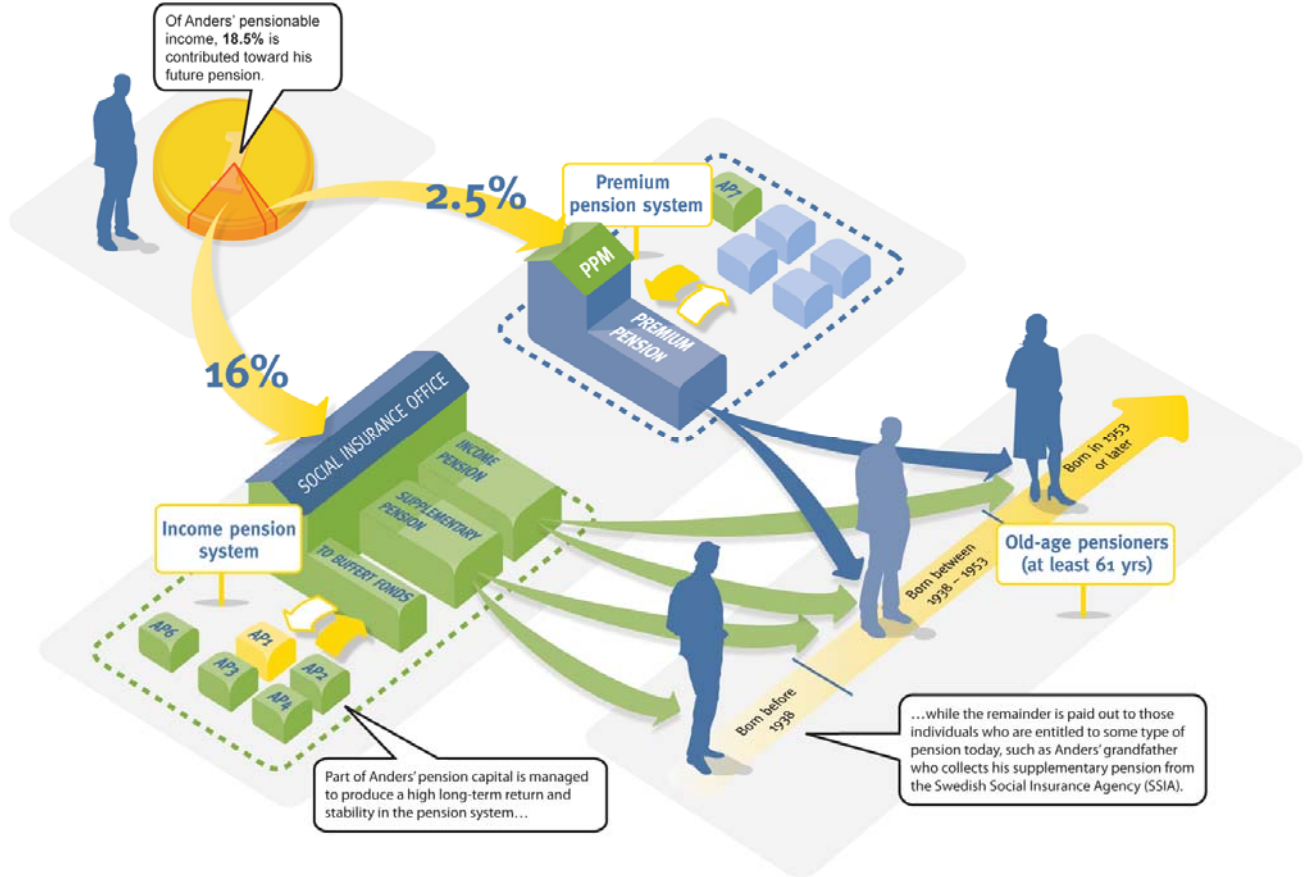
Preparatory work to the act also states that “management of the funds shall not be influenced by prevailing government policies, whether industrial or economic. Consideration shall be given to ethics and the environment without compromising the overall goal of attaining a high return.” (Government bill 1999/2000:46 The AP Funds in the Reformed Pension System, section 7.1).

In addition, the act contains rules stipulating how the assets of the funds may be invested. The investment rules are flexible and allow the funds to invest in several different asset classes, although not commodities (see table Investment rules in section [The pension system demands high returns](#)).

The Sixth AP fund (AP6) is an additional buffer fund in the pension system but has a different role; to invest venture capital in small to mid-sized Swedish growth companies as a means for promoting the development of Swedish business.

The performance of the AP funds is evaluated yearly by the Swedish government and the results are presented in a communication to the Swedish parliament (Riksdag).

Structure of the Swedish pension system (excluding guarantee pension)



The Swedish pension system is divided into two tiers, a pay-as-you-go component that provides income pension benefits, and a premium pension component that provides premium pension benefits. Första AP-fonden, like the four other AP funds, is part of the income pension component.

## Anna Hedborg on the pension system

In the current financial crisis, the automatic balance mechanism will most likely be activated in 2010. However, for the long-term sustainability of the pension system it is a good thing that this mechanism exists.



*From an interview with Anna Hedborg, Chairman of Första AP-fonden and one of the architects of the pension system.*

Life expectancies are rising steadily around the world and the pension systems of most countries have been unable to withstand the resulting pressures, which are both too expensive and too difficult to come to grips with. Sweden is one of the few nations that has carried out a pension reform aimed at ensuring that there is enough money to keep our promises.

A pension system of this type is a fundamental condition for sound economic development. It is also vital that a country's pensioners can rely on the availability of sufficient funds to cover the system's obligations.

The Swedish pension system contains a balance mechanism that has come to be a topic of heated discussion, perhaps more than it deserves. The debate is often fuelled by the presumption

that balancing is something to be feared, which is not the case. Balancing is a mechanism that safeguards the system's ability to quickly adapt to critical events in the economy. The burden of adaptation is shared by all. Current pensioners will bear their share, and those currently earning their future pensions will bear their own. Because the adaptations are made quickly and in direct response to possible future threats to the pension system, the effects are less dramatic than in the case of a "wait and see" approach.

As soon as possible, when the economy improves again, our system is also designed so that indexation can be resumed at the level that would have applied without balancing.

In the current financial crisis, the balance mechanism will most likely be activated in 2010. And as this happens for the first time, it is unfortunate that the amount will probably be fairly large, significantly larger than in the case of a typical recession. Consequently, there is a risk that this aspect will be dramatized in the debate and that people will not realize the exceptional nature of the current economic situation.

We are in the midst of a major financial crisis, the worst in a great number of years, and it is no wonder that it should also have implications for our pensions. Global crises of this magnitude are extremely uncommon. When we experience a more typical market recession and economic slowdown, the impact is nowhere near as powerful. In the normal case, the necessary adaptations would involve a change of only a few percentage points in indexation of pension benefits.

I can understand that people may see it as a huge event when the balance mechanism is activated for the first time, regardless of the resulting amount. At the same time, it is a good thing that it exists so that we don't end up paying out benefits beyond the long-term capacity of the system. The positive side is that once we have emerged from the crisis, there is also a rule that allows us to begin reinstating pensions at the level that would have applied without balancing in 2010.

## Do the AP funds affect the amount of income pension?

### How is the amount of income pension determined?

As implied by the name, income pension is based on an individual's income and the amount of pension contributions (16 percent of pension-qualifying salary) paid in throughout the individual's working life. For every krona paid in contribution to the system by or for an individual, that individual receives the same amount of pension credit. The value of these pension credits are indexed every year, not by the rate of return on the AP funds' assets, as many people believe, but by the income index, an interest rate equivalent to growth in the average income in Sweden.

In other words, the amount of income pension is determined mainly by the amount of income earned over the individual's working life and changes in the average income in Sweden over the period until pension is drawn. But the stability of the pension system is also of importance.

### How has system stability been ensured?

When the new pension system was designed, one priority was to ensure its long-term stability. The system was therefore equipped with a built-in mechanism known as automatic balancing. If the assets of the pension system fall below its liabilities, the balance mechanism is activated to prevent disbursements from exceeding the long-term capacity of the pension system. In the event of automatic balancing, the pension credits are indexed at a rate lower than the income index, which means that pension benefits will increase at a somewhat lower rate until the situation improves.

### Are the AP funds the only assets in the system?

No, the latest figures from the [Swedish Social Insurance Agency](#) (at year-end 2007) show that the combined assets of the AP funds make up less than 13 percent of total assets in the pension system. The largest asset is the contribution asset, i.e. the value of future net contributions to the system.

### How important is the contribution asset for future pensions?

It is critical, since it makes up nearly 87 percent of the pension system's assets.

### What affects the size of the contribution asset?

The size of the contribution asset is determined mainly by the employment rate in Sweden, as well as the number of years worked. Two other key factors are the birth rate and immigration. Political decisions that affect these factors therefore influence the size of income pension benefits.

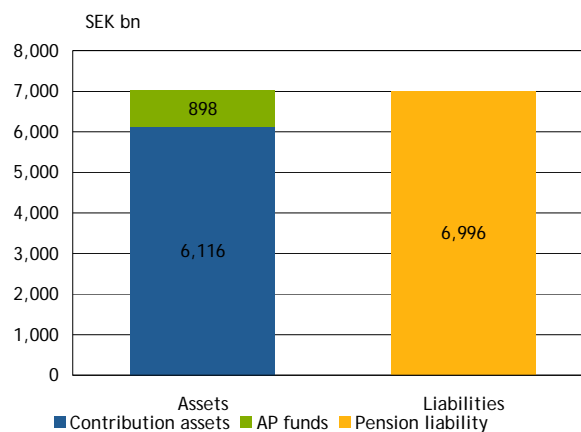
### What role do the AP funds play?

The AP funds represent a minor share of total assets in the pension system, around 13 percent. But although the funds' assets are modest in relation to the total pension liability, the returns of the AP funds influence the level of pension benefits. The higher the return generated by the funds, the lower the risk of a deficit in the pension system and probability that the balance mechanism will be activated. For individual years, such as 2004 and 2005, return on the buffer fund assets can be decisive in determining whether or not automatic balancing is activated.

### Will the balance mechanism be activated in 2010?

At the time of the previous measurement (year-end 2007) the surplus in the pension system was very small, at only SEK 18 billion, compared to the system's total liabilities of SEK 7,000 billion. In view of developments in both the financial market and real economy in 2008, the [Swedish Social Insurance Agency](#) has calculated a balance ratio of 0.974 for 2010, which means that the pension balance mechanism will be activated.

### Status of the pension system at the latest reporting date (end of 2007)



Source: Swedish Social Insurance Agency

### How does balancing work?

If balancing occurs, pension disbursements will be reduced and indexation of earned pension credits will be lower than the normal rate of indexation by the income index. How much lower depends on the degree to which pension liabilities exceed assets. If liabilities exceed assets by 1 percent, the rate of indexation will be 1 percent lower than it would otherwise have been.

### **Will automatic balancing affect everyone?**

Anyone who has ever been employed in Sweden has pension credits in the system and would therefore be affected by balance. Current pensioners will receive somewhat lower pension benefits and the pension credits of those still working will be indexed at a somewhat lower rate than if balance had not taken place. Indexation of pension rights and benefits will be re-established at the normal level when system balance is restored.

### **What are the implications for the average pension in 2010?**

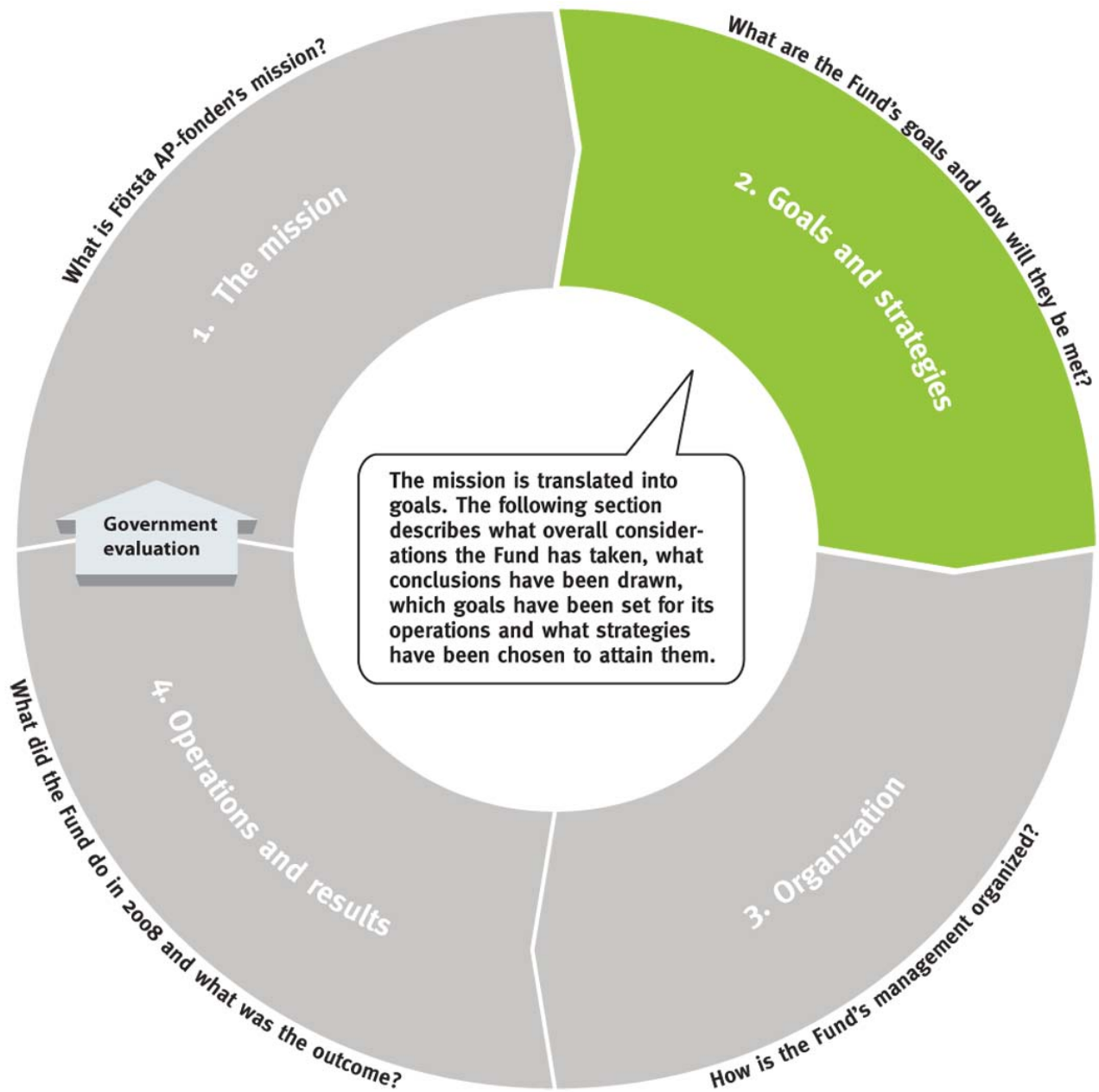
It is impossible to say, since figures from the [Swedish Social Insurance Agency](#) are not available yet. But based on the assumptions made by the [National Institute of Economic Research](#) in its December forecast:

- an average salary/wage growth rate of 0.5 percent in 2009
- pension system liabilities exceeded assets by 2.6 at year-end 2008

For a pensioner with an income-based pension of SEK 12,000 per month, the amount of benefits will be reduced by an estimated SEK 132 per month even if the balance mechanism is not activated. With balancing, the reduction will instead be SEK 444 per month.

In other words, the amount of reduction is due partly to the negative return on the AP funds' assets, but also to a very low anticipated rate of income growth in Sweden during 2009.

# Goals and strategies



## Strategies for realizing the mission

The Fund's strategies can be summarized in the business mission, vision, investment philosophy and goals. All are based on the mission assigned to Första AP-fonden by the Swedish Parliament. The reasoning behind the chosen investment orientation is described in the following sections.

### Första AP-fonden's mission

- Första AP-fonden shall achieve the highest possible returns on the Fund's assets, with well-balanced financial risks, and thereby contribute to high and predictable long-term retirement pensions for current and future pensioners.
- Första AP-fonden shall endeavour to achieve a return that exceeds by a good margin the lowest level required in the buffer funds to ensure the long-term stability of the pensions.
- Första AP-fonden shall pursue long-term asset allocation and ongoing management founded on independent and qualified analysis with a global orientation.
- Första AP-fonden shall create confidence and high returns through its commitment to corporate governance and by placing high demands on ethical and environmental considerations with regard to the Fund's own activities and the assets in which the Fund chooses to invest.

### Första AP-fonden's vision

- We are a role model among international pension funds and create tangible value for the Swedish pension system.
- We generate high absolute and relative returns.
- We have the highest long-term return of the AP funds.
- We contribute to promoting confidence and security in the Swedish pension system.
- We have cutting-edge knowledge, skills and working methods.
- We have a corporate culture characterized by responsibility, respect, participation, cooperation, openness and good ethics.

### Investment philosophy

The cornerstones of the Fund's investment operations are:

- a long-term approach
- diversification of risks
- independent and qualified research, and
- decentralized decision-making.

A certain level of risk is necessary to create the returns demanded by the Fund's mission. Diversification of risk is a guiding principle for both the composition of the strategic benchmark and for active management. Risks are therefore diversified in many dimensions; across asset classes, sectors, management styles, asset managers and investment approaches.

Two advantages that the Fund has over many other investors are its long investment horizon and endurance. The Fund's commitments are spread over a considerable period of time and the inflow of capital is not dependent on short-term performance, providing good opportunities to invest in assets with limited liquidity

### Operating goals

Första AP-fonden's operating goal has been defined with respect to the potential influence of the AP funds' returns and assets on the size of future pension disbursements. Första AP-fonden's task is therefore to manage the fund assets in a way that contributes to minimizing the risk for automatic balancing. And, if it is possible to do so without increasing balancing risk, the Fund should also endeavour to improve the probability of distributing a surplus.

The Fund strives to achieve a high and stable return on its assets. One key to success lies in the Fund's ability to adapt the composition of the strategic benchmark (absolute risk) to changes in economic and demographic trends. Furthermore, the Fund must be able to increase returns by diverging from the composition of the strategic benchmark (active risk). The Board of Directors has established targets for both of these success factors.

### Operating goals

#### *Total return*

- To achieve a total return after expenses of 5.5 percent annually measured over rolling five-year periods.

#### *Active management*

- To exceed return on the strategic benchmark by 0.5 percentage points on both an annual basis and over rolling five-year periods.
- The risk-adjusted rate of return, measured as an information ratio, should exceed 0.3 percent over rolling five-year periods.

The return targets for operating management are to be achieved within a tracking error of 3 percent in relation to the strategic benchmark.

## The pension system demands high returns

Första AP-fonden's role, together with the Second, Third and Fourth AP funds (AP2, AP3, AP4 and AP6), is to act as a buffer in the Swedish pension system.

This means that the Fund's assets and investment returns will be used for payment of pensions in periods when pension contributions are not sufficient to cover pension disbursements. The assets of the AP funds also play an important role in preventing the need for balancing of the pension system. This steers the choice of long-term investment orientation.

### What is the required level of return?

Första AP-fonden's goal is to achieve a high return and thereby contribute to high and predictable retirement pensions. Above all, this means that the assets must be managed in a way that minimizes the risk for automatic balancing in the pension system as far as possible. It is also important that different generations are treated equally. The combined assets of the AP funds, together with the pension system's other assets and liabilities, determines whether or not the balancing mechanism is activated.

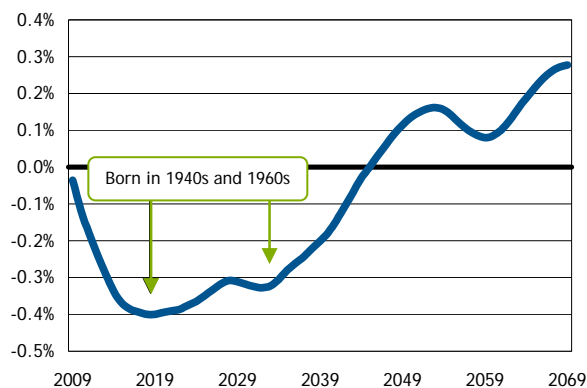
Because the buffer funds account for only a minor share of assets in the pension system (see section [Do the AP funds affect income pensions?](#)) the Fund must start by studying how liabilities and other assets (contribution asset) in the pension system are expected to grow before it is possible to set the desired return target for the Fund.

In simple terms, growth in the pension liability is influenced by two parameters; the average rate of wage/salary growth in Sweden and demographic changes. The contribution asset, on the other hand, is determined primarily by the number of people working and paying in pension fees in Sweden, as well as the number of years they choose to work. The more people who are working, and the longer they work, the greater the contribution asset.

The latest figures from the [Swedish Social Insurance Agency](#) (from year-end 2007) show that the pension system's assets only marginally exceeded its liabilities. Inflow to the pension system (pension contributions) and outflow from the pension system (pension disbursements) are naturally also important. Until the end of 2008 there was a net inflow to the pension system, but this is expected to be replaced by a net outflow starting in 2009. Despite this, the pension system is

expected to remain stable for the next 50-60 and the assets appear to be growing faster than the liabilities.

### Net contribution in relation to pension liability 2009-2069



Source: SSIA

Pressures on the pension system in coming years can be alleviated in two ways. The first is if Sweden's economic development, primarily the employment rate, is so strong that contributions to the pension system are higher than projected in current forecasts. Another is a high rate of return on the AP funds' assets. According to Första AP-fonden's calculations, the buffer funds must produce an average annual return of at least 5.5 percent for many years into the future. This is the key determinant for the Fund's choice of long-term investment orientation.

### Which assets can the Fund invest in, and what returns are they expected to produce?

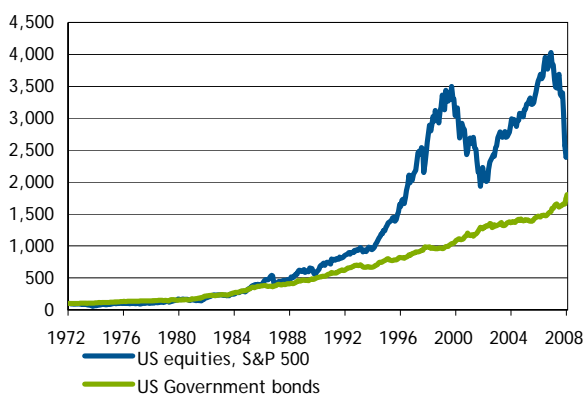
The Swedish National Pension Funds Act contains rules stipulating how the assets of the funds may be invested. With the exception of the 5 percent that may be invested in unlisted securities, the Fund's assets may be invested only in listed instruments. In real terms, this means that the Fund's portfolio must include a mix of fixed income securities, real estate and equities in Sweden and abroad.

Over time, equities have produced higher returns than fixed income investments. This is visible in statistics from the US financial market, where long time series for different asset classes are available.

The diagram on the following page shows that since 1973, US government bonds have returned an average of 8.5 percent annually, while equities have returned an average of 11.6 percent over the same period. However, variability of

returns has also been higher for equities than for government bonds.

### Fixed income and equities, return over the past 35 years



Index = 100, 31 Dec. 1972  
Sources: Reuters EcoWin, Lehman Brothers

#### Investment rules

- Investments may be made in all types of listed and negotiable instruments on the capital market.
- At least 30 percent of each fund's assets shall be invested in fixed income securities with low credit and liquidity risk.
- No more than 40 percent of a fund's assets may be exposed to currency risk.
- No more than 5 percent of the assets of each fund, may be invested in unlisted securities. Investment in unlisted shares may only take place indirectly via shares in mutual funds or venture capital companies.
- Each fund may own no more than 10 percent of the votes in a single listed company. The limit for unlisted venture capital companies is set at 30 percent.
- Each fund's holding of shares in listed Swedish companies may not exceed the equivalent of 2 percent of the total value of Swedish shares on an authorized Swedish stock exchange or marketplace.
- At least 10 percent of the assets of each fund shall be managed by external managers by purchase of mutual fund shares or discretionary management.
- The funds may not invest in commodities.

#### Why do equities have a higher expected return?

The rate of return an investor demands from an investment depends on how risky an investment is considered to be. For example, an investment in a government bond is not associated with any appreciable uncertainty. As long as the government backing the bond does not go bankrupt, the investor knows in

advance the exact yield the investment will generate if held until maturity.

One alternative is to instead invest and contribute to the financing of a profit-driven company. This can be done by acquiring shares, which give the investor a stake in the company's profits and value growth. However, the rate of return is uncertain and depends on the company's profitability, which is turn influenced by factors such as its own strategy, market trends, the actions of its competitors, etc. Since it is not possible to calculate the return on an equity investment in advance, it is by definition more risky than a government bond. In order to attract capital and conduct its operations, a company must therefore offer a risk premium - a higher expected return than the expected yield from a government bond. Otherwise, investors would never choose to buy shares and would instead prefer the less risky bonds.

Because of this fundamental connection between return and risk, equities are expected to produce a higher average return than government bonds. The same applies to the other types of assets in which the Fund may invest.

#### What does that mean for the Fund's choice of asset mix?

The Fund has calculated that its role in the pension system requires an average annual return of 5.5%. To have any chance of achieving an expected return of that magnitude, only a small share of the Fund's portfolio can be invested in less risky assets.

To determine the precise asset mix, the Fund carries out an analysis in two stages. In the first of these, the ALM study, the Fund analyzes liabilities and other assets in the pension system together with the return and risk attributes of other assets classes and the covariance between them. The study is based on the Fund's assumptions about the expected returns and risks associated with investments in bonds, real estate or shares. These assumptions are derived partly from historical return and risk data from the entire 1900s. But the Fund does not believe that history repeats itself entirely, and has therefore made sizeable adjustments in the historical patterns to obtain better assumptions for the future (for details, see fact box on the ALM study). This study determines the Fund's optimal long-term asset allocation given a global economy and financial markets in sustainable equilibrium.

In the next stage the Fund decides how this asset allocation needs to be reweighted based on an analysis of de facto trends in the economy, asset prices and risk premiums and how these are expected to change in a mid-term perspective (2–10 years). Första AP-fonden calls the asset mix resulting from these analyses the strategic benchmark.

## ALM study

By conducting an ALM study the Fund has calculated the level of return required from the buffer funds in the pension system. The same study also answers the question of what level of risk is appropriate. The fundamental aims of the ALM study are:

- to maximize the Fund's ability to contribute towards upholding the desired status of the pension system, where one critical characteristic is that pension benefits are normally indexed for average income growth in Sweden.
- to manage the fund capital so as to minimize the risk for automatic balancing.
- to maintain neutrality between generations.
- to compute outcomes based on the Swedish Social Insurance Agency's three scenarios for financial development of the pension system over the next 50 years.

The Fund has made assumptions about the level of risk and return that can be expected from investments in bonds, real estate and equities. The assumptions are based partly on historical data, but significant adjustments have been made. In short, these assumptions are that:

- a bond investment is expected to produce a return of around 2 percent above inflation – with some variation between regions.
- equities are expected to have an average annual return of over 3 percentage points more than bonds. Also here, there are variations between equity markets.
- real estate is expected to produce a return somewhere in between that of bonds and equities.

Although returns in the different markets will vary from year to year, these are the rates of return expected by the Fund seen over a longer period of time.

The Fund has used a model of the pension system and capital market to simulate the pension system's development. In this model, the Swedish Social Insurance Agency's scenarios have been linked to hypothetical trends in the capital markets over the next 60 years. For every individual year and outcome, a number of key variables are calculated and weighted together in a balancing loss figure for the entire pension system. The investment strategy that results in the lowest balancing loss determines the composition of the ALM portfolio.

This model is also used to decide on the mix within each asset class (sector allocation, type of security, etc.) to make the strategic benchmark as well diversified as possible and to analyze to what degree these assets should be hedged.

## Conclusions from the ALM study

The Fund completed a new ALM study at the beginning of 2008. The study shows that the allocation between equities and fixed income assets is critical for Första AP-fonden's ability to meet its return target. An allocation in which the Fund's entire portfolio is invested in fixed income assets will result in failure to achieve the targeted return. With only fixed income assets in the strategic benchmark, the Fund's return would be so low that the automatic balancing mechanism would be activated on many occasions.

Instead, it has been demonstrated that a portfolio containing a predominance of equities provides better scope for the Fund to meet its objectives since it is expected to generate a higher return over time, which is positive for the pension system. According to the new ALM study, the Fund should raise the share of equities in its portfolio.

Another conclusion is that the financial risks assumed by the Fund, in both equities and fixed income investments, should be given a wide spread in many global markets.

In a longer perspective, additional diversification of risk can be achieved through exposure to foreign currencies. Foreign currency exposure is spread across euros, US dollars, British pounds, Japanese yen, Norwegian kroner and emerging market economies. The chosen currency exposure provides a spread of risk that is independent from the Fund's allocation between asset classes and regions.

## Strategic benchmark

The ALM study culminates in a long-term investment strategy that optimizes the Fund's potential to fulfil its long-term obligations in the pension system. To finally determine the optimal asset allocation in the strategic benchmark, the Fund uses two additional analyses in a mid-term perspective (2–10 years) to identify whether there are imbalances in the economy, pricing errors in the financial markets or risk premiums that the Fund can utilise to further increase the expected long-term return.

Based on the results of the ALM study and mid-term analysis, the Fund began implementing the new strategic benchmark in May 2008. In view of the current turbulence in the financial markets, however, the Fund has chosen not to complete the implementation. At year-end 2008 the strategic benchmark consisted of 55 percent equities, 40 percent fixed income assets and 5 percent alternative investments. Foreign currency exposure was equal to 20 percent of total net assets.

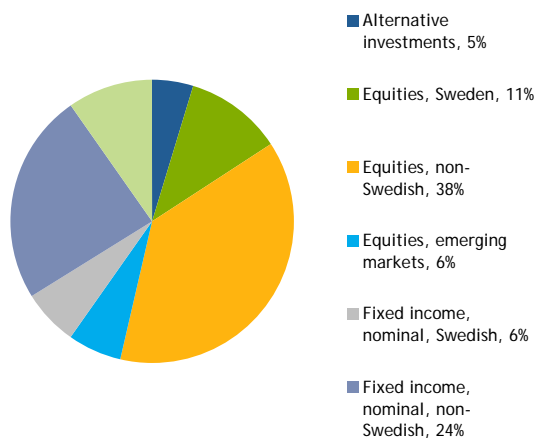
The majority of equity investments are placed in foreign markets, primarily in North America, Europe and the Pacific. Of total equity exposure in the strategic benchmark, emerging

markets make up nearly one tenth and Swedish equities one fifth. Allocation in the fixed income asset class is also spread across several regions – North America, Europe, Japan and Sweden – but the most important diversification of risk is attained by spreading the fixed income assets between nominal treasury bills, index-linked bonds and credit bonds.

The chosen strategic benchmark provides a wide spread of risk and is expected to give the Fund good potential, over time, to generate the level of return required in the pension system's buffer funds.

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#### Strategic benchmark, 31 Dec. 2008



The index for each asset class is shown on the Fund's website [www.ap1.se](http://www.ap1.se).

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## Active management - a key component of the management model

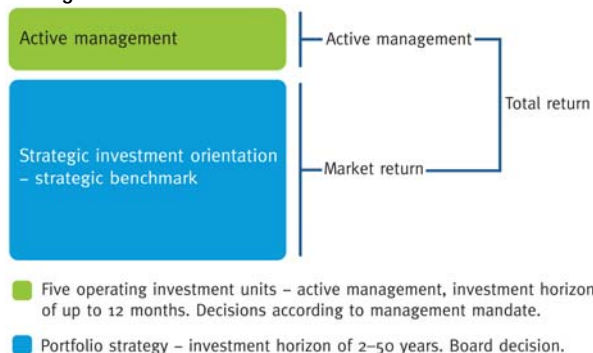
To create the returns necessary to fulfil its mission, the Fund has chosen a management model that is divided into two stages.

### The strategic benchmark - the Fund's most important decision

In the first step, the Board of Directors decides on the Fund's long-term investment orientation, the strategic benchmark. The chosen composition of the strategic benchmark is the main driver for the Fund's long-term return. The strategic asset allocation unit is responsible for providing the Board with decision data regarding changes in the strategic benchmark. This unit does not participate in active management.

In the next stage, the strategic benchmark decisions are executed and active investment decisions are made towards the goal of generating a return on net assets exceeding that for the strategic benchmark. Responsibility for producing this excess return has been delegated to five other investments units, whose task is also to ensure that the Fund's assets are invested in accordance with the chosen strategic benchmark.

### Management model



### Why active management?

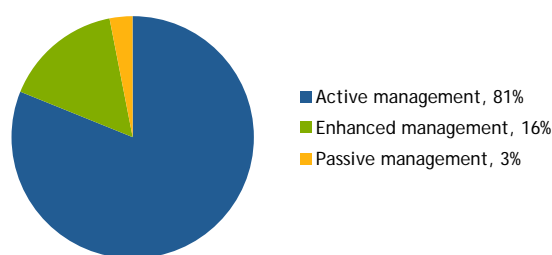
As described in the preceding section, the asset mix in the strategic benchmark has been selected on the criterion that it will give the Fund the best prospects of fulfilling its long-term obligations. However, return on the strategic benchmark will vary over time. In seeking to increase total return and therefore also the probability of meeting its return target, the Fund has chosen to pursue active management.

Active management aims to diverge from the composition of the strategic benchmark in order to earn a higher return. The Fund's goal for active management is to produce an excess return on the total portfolio of at least 0.5 percentage points per annum.

The Fund has adopted a strategy with a large degree of active management on the conviction that it is possible to earn above-index returns in many parts of the global financial markets through advanced research and well diversified risk-taking. To succeed, however, the Fund must have a strong focus on active management, skilled and knowledgeable employees, systematic and well structured investment processes and a high level of cost-efficiency.

The Fund has chosen to concentrate its active management in areas where managers have historically been able to generate high risk-adjusted active returns. For example, the Fund has identified the equity markets where managers have achieved the strongest and weakest active returns. Among other things, these findings have indicated the difficulty of creating active returns in management of US small caps, but better scope to earn an active return in management of US large caps. This research also shows that active foreign exchange management and asset allocation have produced a high risk-adjusted return.

### Management structure



# Risk management

From a strategic perspective it is of the outmost importance that the Fund’s asset management is permeated by a good risk culture. This demands a high level of risk awareness among both internal and external managers.

Although the past year was exceptional from a risk perspective, the Fund has been able to monitor risks throughout the year and adapt its guidelines and limits accordingly thanks to well established routines and processes. The steps taken by the Fund in response to the financial crisis are described in the section [Looking back on 2008](#) while this section describes the Fund’s risk management in more general terms.

## Known risks - required for investment

Each proposal for investment in a new instrument or fund is preceded by exhaustive research. An investment is made only if the Fund understands and can calculate the risks it is associated with, provided that the risk is deemed acceptable. The decision to invest also depends on the availability of processes to measure, manage and control these risks. In practical terms, this means that the Fund does not invest in any structured products in the form of sophisticated derivative instruments and has been highly restrictive in its involvement with hedge funds.

## Risks in two stages

A certain level of risk is necessary to generate the return required by the Fund’s mission. Risks arise at the actual time of investment. The Fund’s risk selection can be divided into two

stages: First, a decision is made on the Fund’s long-term portfolio composition, the ALM portfolio. At the next stage, active investment decisions are made to deviate from the ALM composition in the short term. Together, these two investment stages result in the Fund’s de facto asset mix.

Analysis of risks at the first stage takes place within the ALM study that provides a basis for the Board’s choice of ALM portfolio (see section [The pension system demands high returns](#)). As a result, day-to-day risk management is devoted mainly to the risks arising in implementation of the ALM portfolio and the active investment decisions made in order to deviate from this portfolio.

The most significant risks can be broken down into three groups – investment risks, administrative risks and operating risks.

## Investment risks

Investment risks include market risk, liquidity risk and credit risk, all of which arise through the Fund’s ownership of different types of assets.

## Market risk

The Fund’s most significant investment risk by far is market risk, i.e. the risk for a decrease in the value of an asset. When the Fund invests in a share, this is based on the belief that the share price will rise. But share prices, like those of all assets, are volatile and can naturally also decrease. Market risk can be quantified and is typically measured in terms of standard deviations.



Market risk can be expressed in both absolute terms, i.e. compared to a wholly risk-free portfolio, and as the difference relative to an index, so-called active risk. The relevant index for Första AP-fonden is the strategic benchmark, which means that active risk consists of the risk between the actual portfolio and the strategic benchmark. Market risk is related to the positions taken in the portfolio, but also to the general level of volatility in the capital markets.

The Fund calculates both realized risk, based on past price movements, and forecasted risk. The latter is often of greater interest, since it gives an indication of the level of risk in the Fund's current positions. For this purpose the Fund uses a well established commercial risk system and proprietary models to make risk forecasts.

#### *Liquidity and credit risk*

Liquidity is the risk for a low volume of trading in an instrument, which can lead to large differences between buy and sell prices and therefore higher transaction costs, or that it will simply not be possible to sell an instrument at the desired time. The Fund manages this risk through rules regulating which securities may be purchased, meaning that the Fund invests primarily in highly liquid securities. In the case of equity investments, the permitted investments are defined through the choice of index. There are limits governing what percentage of the investments may be made outside index or in an individual security.

Credit risk is associated with investments in bonds and the risk for cancellation of payment. To limit this risk, the Fund may invest only in bonds with a rating of at least BBB and normally has the bulk of its fixed income investments in AAA-rated securities.

#### **Administrative risks**

Administrative risks include counterparty risk, management risk and system risk, all of which arise when investments are made in the financial markets.

#### *Counterparty risk*

Counterparty risk is the risk that parties with which the Fund enters into a business transaction, primarily banks, will be unable to meet their obligations to the Fund due to insolvency or other reasons. The Fund manages this unavoidable risk by doing business only with counterparties that have undergone a thorough credit assessment. The requirements for these counterparties are that they have a strong financial position and high credit ratings and are domiciled in politically stable countries. Aside from spreading risks between a number of different counterparties, risk is minimised through the use of

exposure limits. Because counterparty risks can be substantial, this management follows a structured yearly process.

Första AP-fonden has ISDA agreements (International Swaps and Derivatives Association) with all banks, which means among other things that derivative positions can be netted (buy and sell transactions with the same bank can be set off against each other) and that exposure risk is thereby decreased. In addition, the majority of the Fund's cross-currency transactions are paid via CLS Bank, which eliminates the risks that otherwise arise when settlement of buy and sell currencies does not take place simultaneously.

#### *Management and system risk*

Management risk includes all risks that arise when the Fund transfers responsibility for management tasks to an external party, such as the risk for incompetence or dishonest practices. This risk can be limited through in-depth evaluation of potential candidates by the Fund's external management unit when seeking new managers, and by using multiple managers in each market. In addition, the Fund carries out a yearly review of all managers that includes personal visits.

System risk refers to other risks that arise in transactions and storage of financial instruments, where other parties in the financial infrastructure are involved. This includes the risks associated with use of a bank, clearing house, etc. These risks are managed partly through rigorous evaluation and partly by being clear and proactive when drafting contracts.

#### **Operating risks**

Operating risks are the risks of losses arising as a consequence of human factors, inadequate systems, inefficient routines and instructions and insufficient control. Effective IT support is therefore critical. The Fund's large transaction flows are handled in a financial system, Dimension, whose functionality and availability is deemed high. To minimize the operating risks associated with business transactions, these are executed electronically to a large extent. A continuous effort is also made to upgrade and update systems and routines, and to successively automate manual work steps. On a regular basis, the Fund conducts large-scale review of operating risks in which all units participate.

#### **Independent monitoring**

The Fund's risk management unit is responsible for identifying, measuring, controlling and reporting all risks. The unit is headed by the Fund's Compliance Officer, who executes risk control and is charged with monitoring compliance with laws and the executive decisions of the Board and Managing Director.

## Corporate governance

### Active ownership

Based on a conviction that investments in companies that are well managed from an corporate governance perspective will provide higher returns and lower risks in the long term, the Fund has chosen to pursue active ownership. In this context, active ownership refers to corporate governance and issues related to the companies' responsibility for social and environmentally-related aspects of their operations, commonly known as ESG issues.

Many examples can be found to support the opposite case, that poorly managed companies lead to higher risk and lower returns. Furthermore, poorly managed companies limit the opportunities for other companies to conduct their own operations efficiently. The Fund's total return is influenced mainly by the choice of strategic benchmark. Through active management and ownership influence, the Fund creates opportunities to further enhance return.

### Corporate governance

Första AP-fonden's commitment to corporate governance rests on the Fund's right, as a shareholder in the companies, to vote on key issues at general meetings. The Fund exercises this right in the companies where the cost of involvement is proportionate to the influence the Fund can be expected to have. Aside from participating in and voting at general meetings, the Fund conducts discussions with companies and other shareholders prior to general meetings and participates in nominating committees when the opportunity arises.

Another way to exert an influence is by actively and openly informing companies and the public about the Fund's position on significant issues. The opportunities to influence legislation and self-regulation in this area are also utilized. The Fund cooperates actively with other shareholders – both foreign and Swedish.

### Several principles

In aiming to achieve the objectives for its work in the corporate governance area, the Fund has adopted seven principles (see the Fund's ownership policy at [www.ap1.se](http://www.ap1.se)). The most important of these is mentioned above, the right of shareholders to vote and make proposals at general meetings. In addition, all shareholders must be treated equally – unless otherwise stated by law or the articles of association. It is in the best interests of the shareholders that companies do not set up obstacles to changes in ownership, which are an effective means for creating

a dynamic business sector with higher returns for the shareholders and other stakeholders in a company. Election of board members is another issue to which the Fund devotes considerable resources, among other things by serving on or cooperating with nominating committees.

Share-related incentive schemes are an issue that is often put before shareholders for decision at general meetings. The ability to offer incentive schemes of this type as part of a total remuneration package is often beneficial. These schemes give companies a means for ensuring that the interests of the participants are as closely aligned as possible with shareholder expectations for a high long-term return and provide better scope to recruit and retain employees. However, it is vital that they are properly structured in order to have the desired effect. It is therefore imperative that incentive schemes are evaluated from a shareholder perspective and that the costs associated with them are reasonable and clearly reported.

### Ethical and environmental responsibility

The Fund's commitment to corporate environmental and social responsibility is based on the conventions ratified by the Swedish government and the international agreements linked to these conventions, such as the UN's Global Compact and the OECD's guidelines for multinational corporations.

Första AP-fonden's view is that the companies are responsible for compliance with international conventions, regardless of whether these are directed to national governments, to individuals or to companies and organizations. Moreover, this responsibility also applies regardless of whether the countries in which these companies operate have signed the conventions or have weaker human rights legislation.

### *A well established process*

Twice a year, the Fund's entire portfolio is screened to identify companies that can be associated with infringement of international conventions. This is done with the help of an external consultant, GES Investment Services.

The Fund then engages in active dialogue with any companies found to be in breach of a convention. The goal is to bring about a lasting change in the company's behaviour in order to prevent similar events in the future. This is based on a conviction that an investor has greater leverage to pressure a company by exerting its ownership influence through direct contact than by selling its shares. However, the Fund may

decide to divest its holdings if the discussions do not produce the desired results.

By tying Första AP-fonden's requirements to international conventions and by cooperating with others towards the same purpose, the Fund can contribute to international efforts to ensure that action is taken against infringement of conventions in the global financial market. This will also serve to give the conventions greater weight.

Aside from responding to suspected infringement of conventions, the Fund systematically reviews all of the Swedish companies in its portfolio. The goal of these discussions is to exert the Fund's influence in urging its portfolio companies towards corporate environmental and social responsibility. The Fund is also active in a number of international asset manager initiatives to promote openness and transparency in issues related to ethical and environmental compliance.



Since 2007, SRI analysis of environmental and ethical compliance in foreign companies is handled jointly by four AP funds through the Ethical Council.

- The Ethical Council is a joint effort between four AP funds, AP1, AP2, AP3 and AP4. Each fund has a representative on the Council and chairmanship of the council is alternated between the funds.
- By working together, the aim is to bring about a positive change in foreign companies that can be that can be associated with infringement of international conventions related to the environment and human rights.
- This cooperation gives the funds greater scope to influence companies than by acting individually.
- The Ethical Council is an attractive partner for large international investors interested in exercising an active ownership influence in environmental and ethical issues.
- The decision to exclude a company is made by each individual fund.
- The Ethical Council provides an account of its activities in an annual report (see [www.ap1.se](http://www.ap1.se)).

## The employees - our most important resource

An efficient organization made up of motivated employees with the right knowledge and experience is without a doubt one of the most important success factors in the Fund's striving to achieve the returns demanded by its mission.

### Continuous development

A high level of motivation demands clear and effective leadership. Due to the importance of good leadership, the executive Management Team, whose composition changed with the appointment of a new Managing Director in March, started a leadership program in the autumn of 2008. A leadership program for the Fund's other managers is planned to start in 2009.

In a knowledge-intensive organization like Första AP-fonden, it is vital that each employee's unique abilities are identified, utilized to their full potential and continuously developed. It is therefore the direct responsibility of each employee and manager to ensure adequate skills development in line with the Fund's needs.

Employee performance is also affected by health and work environment factors. In order to promote well-being and minimize sickness absence, the Fund encourages physical activity and offers its employees subsidised fitness benefits.

### An attractive workplace

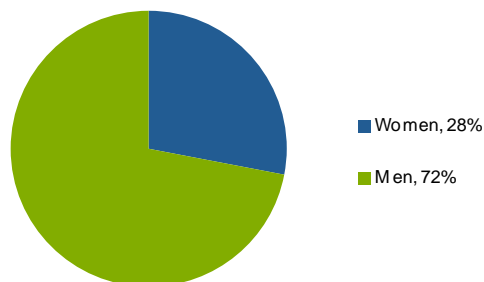
In order to attract and retain the top talent, the Fund must be able to offer a competitive level of compensation. The Board therefore decided to implement a variable remuneration plan for the financial year 2008.

All employees except the Managing Director and staff in the risk management unit are covered by the plan. The system is performance-based, which means that variable remuneration is payable only on the attainment of fixed and predetermined targets. The maximum potential amount payable to each employee is equal to two monthly salaries, where the payment is reduced by half if the Fund's net investment income is negative. The ambition is to offer a similar plan for 2009, but no decision has yet been made.

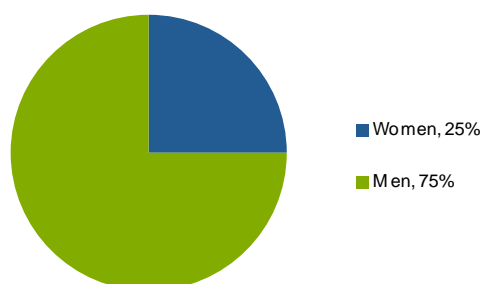
### Employee survey - a valuable tool

To ensure that employee skills and expertise are being optimally utilized and to support the Fund's vision and values, an employee survey is carried out every year. Based on the answers in the survey, an MMI - Motivated Employee Index - is calculated. In the survey for 2008, which was answered by 91% of the employees, the MMI ratio showed a rising trend, among other things with improved employee perceptions of commitment, pride and development. Other important factors such as working conditions, opportunities for ongoing skills development and a good introduction for new employees were also given high marks.

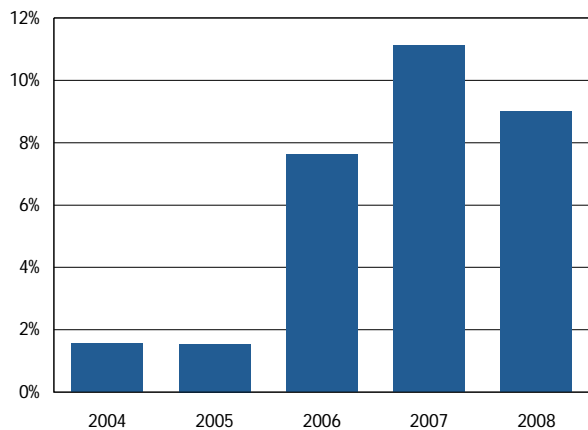
### Gender distribution, all employees



### Gender distribution, management



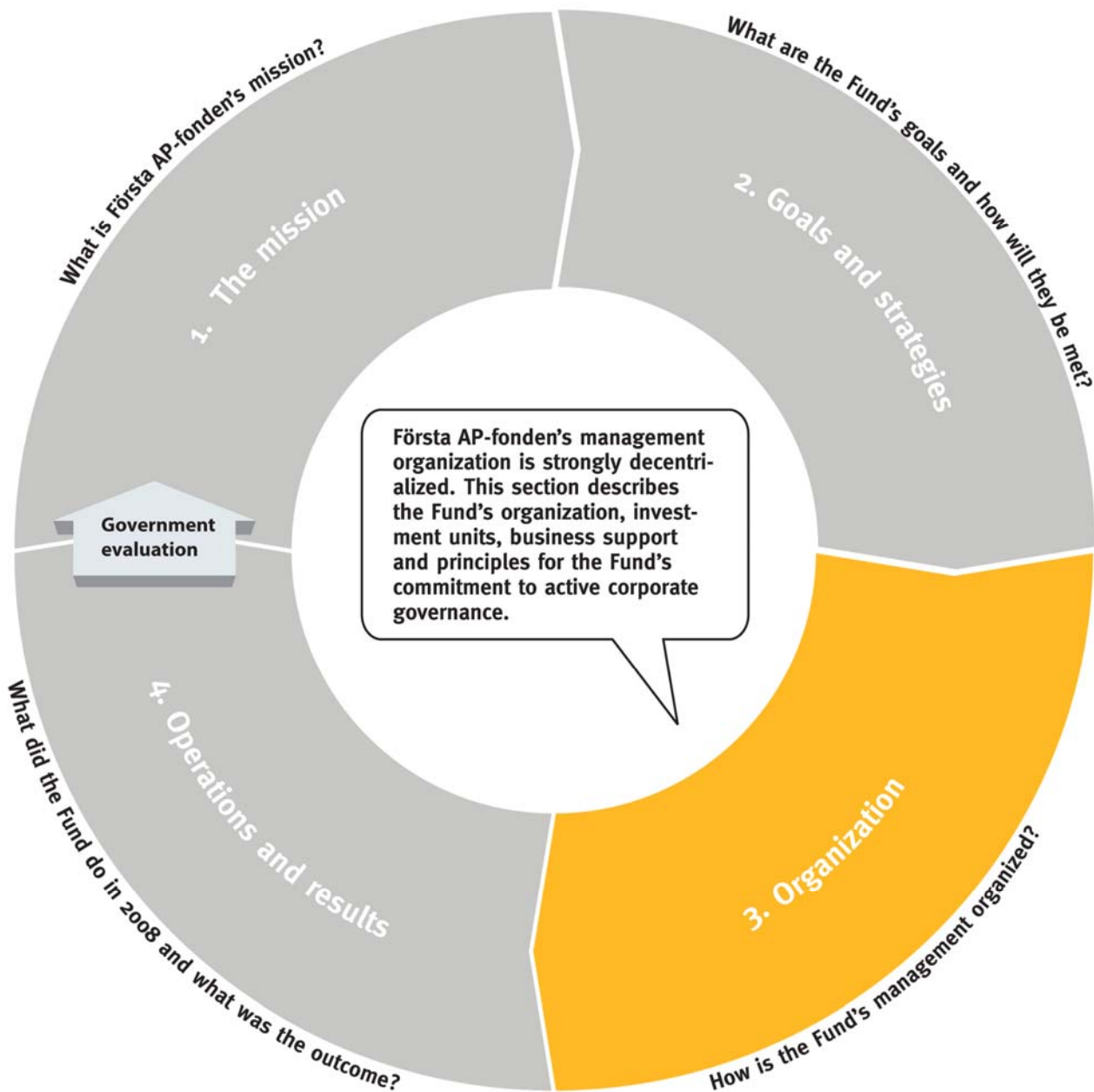
### Employee turnover rate



### Employee statistics

Average no. of employees in 2008:	65
Total no. of employees on 31 Dec. 2008:	68
Average age:	Women 46 years
	Men 43 years
Average years of service:	7.6 years

Organization  
Management organization



## A stronger focus on strategic asset allocation and HR

**One key strategic consideration for Första AP-fonden is to what extent, and in what areas, the Fund's asset management and related support functions should be performed by its own staff or by an external party. The decisive factors are quality and cost-efficiency and how important it is for the Fund to retain control over the functions in question.**

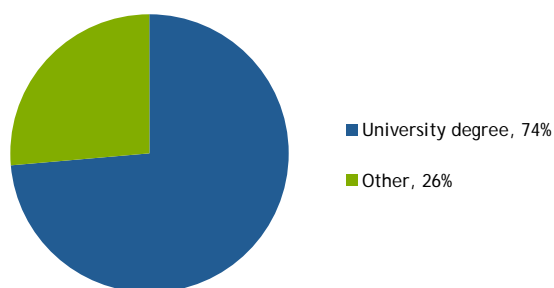
### A knowledge-intensive organization

Första AP-fonden has chosen to conduct a large share of its asset management in-house. The Fund's 68 employees are responsible for both strategic and tactical asset allocation, management of Swedish and European equities, foreign exchange and the bulk of fixed income management. For other investment areas, external managers are used. To a large degree, business support activities are also handled internally.

A high share of internal management demands a high level of education among the Fund's staff. Close to three fourths of the employees have a university degree, predominantly in economics and engineering/mathematics.

The number of employees has been largely unchanged since the start in 2001, but as shown in the diagram below there has been a proportional shift from business support functions to analysts and asset managers in investment operations. This has been possible despite a dramatically increased number of transactions through automation of the transaction flow and outsourcing of certain transaction services to the Fund's custodian bank.

### Educational level



### Reorganization in 2008

Several changes have been made in the organization since Johan Magnusson took over as Managing Director of Första AP-fonden in March 2008, including a stronger focus on strategic asset allocation and Human Resources.

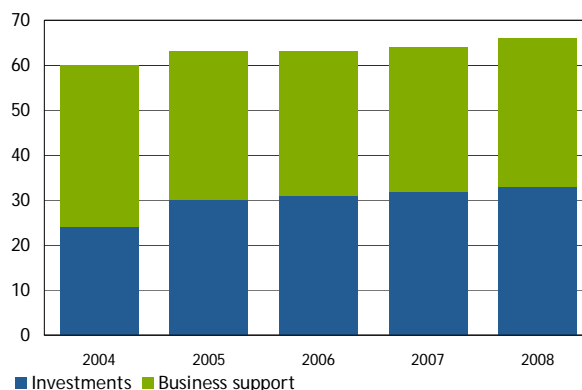
The former portfolio strategy and global macro allocation units were merged to create a new unit, strategic asset allocation. A new manager, Andrejs Landsmanis, was appointed to supervise the unit after the former Head of Global Macro Allocation retired. The unit has four employees. In contrast to the Fund's other investment units, the task of strategic asset allocation is not to create active returns but to take overall responsibility for the Fund's long-term investment orientation.

The Fund aims to strengthen its focus on HR issues and therefore hired a Head of Human Resources, Marina Westman, at the beginning of 2008 to replace the former Personnel Director after her retirement.

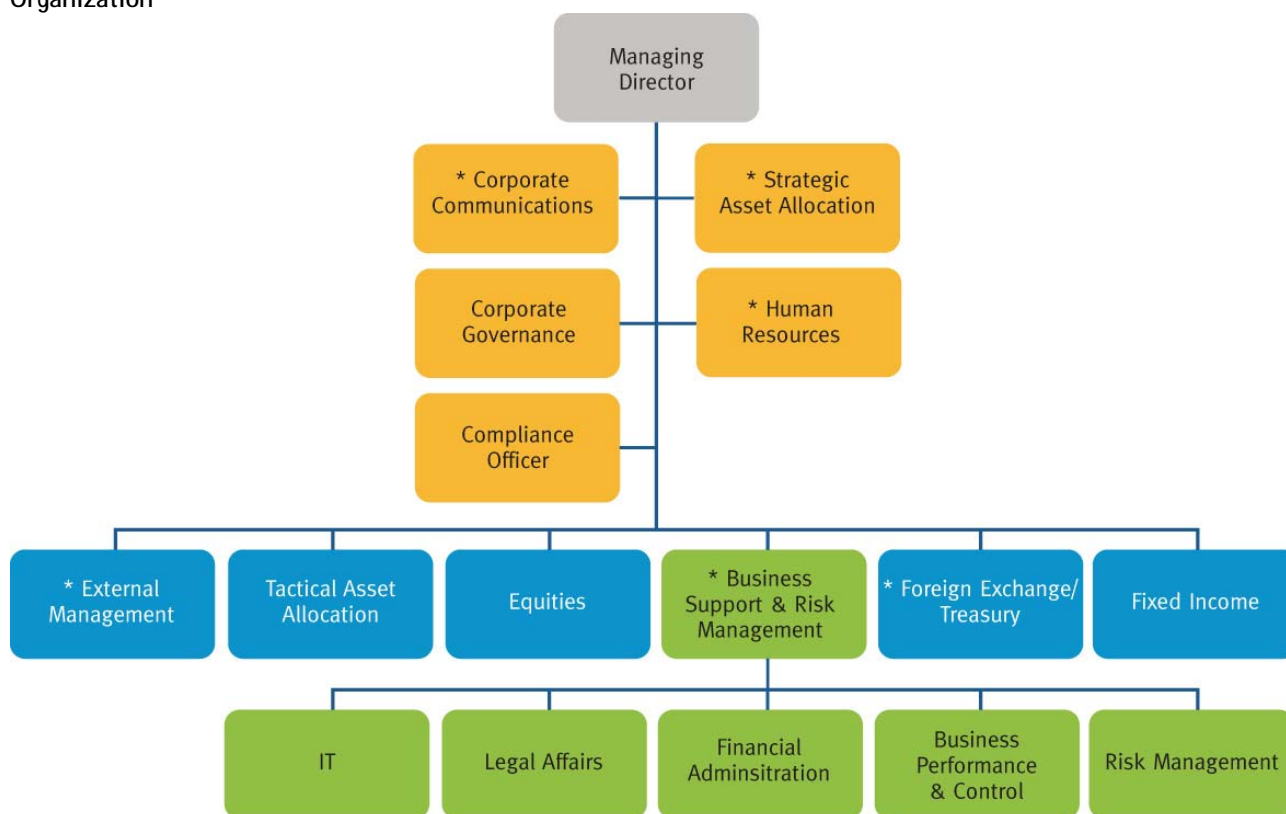
Both the Head Strategist and Head of Human Resources are members of the Fund's management team.

In 2008 Patrik Nyman was appointed as the new Head of Tactical Asset Allocation after the unit's previous manager chose to leave the Fund. Patrik Nyman was formerly Deputy Head of the unit.

### Number of employees by function



## Organization



\* The head of unit is a member of the Fund's executive management team.

### Business support and risk management

All performance measurement, risk management and IT activities are carried out by Första AP-fonden's own staff, since these tasks are considered to be central aspects of the Fund's management.

The Fund's investment process relies on access to high quality data (prices, holdings, index, etc.), since precise position data is used in several quantitative models.

### A critical function

Efficient and smoothly functioning financial administration is critical for reliable reporting, performance measurement and risk management. The Fund's internal investment units carry out a vast number of business transactions every year. The financial administration unit ensures that each individual transaction is registered and correctly reported and that all trades are properly settled, i.e. that payment is made upon delivery. The unit is also responsible for daily management of static data from a very large number of securities/derivative contracts. In 2008, basic reporting for virtually all external mandates was outsourced to the Fund's custodian bank.

### Independent monitoring and risk management

One of the Fund's units, which is independent from the investment units, has special responsibility for valuation of Första AP-fonden's portfolio. During the year the unit completed a project to improve price control and valuation of listed assets. A new software solution for monitoring alternative investments was implemented during the autumn. This unit is also responsible for reporting of returns and portfolio results, supplemented with performance-related key ratios. Reporting is carried out on a daily, weekly and monthly basis. Much of the research is focused on reconciling the discrepancy between the Fund and benchmark returns, known as attribution analysis.

The tasks of the risk management unit, which is also wholly independent from investment operations, are to identify, measure, control and report all of the Fund's risks. A more detailed description of the unit's work is provided in the [risk management](#) section.

## Organization

# Investment operations

**More than 30 of the Fund's employees are directly or indirectly involved in investment decisions. Nearly all of these belong to the five units whose task is to outperform the expected return on the strategic benchmark through active management.**

### Decentralized decision-making

The Board of Directors establishes the composition of the strategic benchmark and has delegated a risk mandate to the Managing Director for active management. This mandate provides scope for reallocation between and within various asset classes, position-taking in foreign currencies and allocation between internally and externally managed assets. The Managing Director then delegates the risk mandate to the portfolio managers, both internal and external.

### Strategic asset allocation

The strategic asset allocation unit works from a holistic perspective, and its task is to design a portfolio that can be assumed to have the most suitable composition, risk profile and expected return for the Fund's assets. The unit's investment horizon is long to mid-term (1–3 years). Investment decisions, regardless of horizon, are evaluated continuously.

The unit is able to pursue opportunistic strategies that are expected to improve the Fund's risk profile, and regularly evaluates new asset classes for inclusion in the Fund's asset composition. The unit is also responsible for the Fund's ALM study and performs macroeconomic and market analyses as a basis for determining when the Fund should act.

Absolute return and risk are key metrics used in the allocation of assets. Strategic asset allocation has no targets of its own for active management. The unit has four employees.

### Active management units

The Fund's active management is conducted in five units, four internal and one that is responsible for the Fund's external managers. The goal of the Fund's active management units is to generate a total annualized active return of 0.5 percentage points. The choice between internal and external management is determined by the individual manager's ability to generate a good risk-adjusted return after expenses.

For every financial year, a risk budgeting process is used to determine the level of risk to be maintained by the different managers in order to maximize the probability of the Fund meeting its active return target. Most active risk is assigned to

investment areas with high expected risk-adjusted active returns and low covariance with active returns in other areas.

### Internal active management

The Fund's internal active management units invest in listed securities and foreign exchange. One critical aspect of this management is the use of several mutually autonomous investment processes, all of which are based on independent and qualified analysis with a global orientation. This increases the scope to achieve a high risk-adjusted return and reduces sensitivity to unexpected events. There is consequently no coordination of positions, and investment decisions are instead decentralized in the organization. This investment philosophy ensures sufficient breadth in the Fund's research, which rests on both fundamental research (economic indicators at the macro, micro and corporate levels) and quantitative analysis based on mathematical and statistical modelling.

At year-end internal active management was carried out in four different units that manage over 60% of the Fund's total assets. All units have made a positive contribution to the Fund's strong active return over the past five years. In 2008 a decision was made to change the orientation for global macro allocation, formerly one of the Fund's active investment units, and its positions were closed on 31 May. Since that time, its employees are part of the strategic asset allocation unit.

### Tactical asset allocation

The tactical asset allocation unit generates excess returns by reallocating the Fund's assets between different asset classes and markets. The investment horizon is short, up to three months.

The unit's investment process is driven by structured research, clearly defined rules for deciding when to execute a trade, back-testing of models and decision-making rules and the use of several parallel investment signals.

Positions are taken between the global equities, global fixed income, foreign exchange and cash asset classes. Assets are also allocated between different regions and countries within the equities and fixed income asset classes. Research is based on a combination of macroeconomic indicators, fundamental valuation and statistical analysis. The unit has five employees.

### *Equity management*

The equity unit creates excess returns through active management of Swedish and European equities. The goal is to outperform index mainly through a combination of stock selection within sectors and allocation between sectors. The investment horizon is around one year.

The investment philosophy is characterized by systematic fundamental company analysis, sector specialization and clearly delegated management responsibility with a large degree of analyst influence.

The analysts have management responsibility for their respective sectors in the European portfolio and analysis responsibility for the Swedish companies. The Swedish portfolio is managed jointly by a team of sector analysts headed by a portfolio manager.

Stock analysis focuses on earnings growth, stock valuation and risk. The investment process is aimed at identifying stocks that are overvalued or undervalued in relation to the unit's own earnings growth forecasts.

There is a strong emphasis on personal visits and close contact with companies, together with global analysis for early identification of new trends that affect their growth and profitability. This process is supplemented by models for factors like earnings momentum and risk analysis, as well as the use of external stock analysis.

Specialized equity traders execute transactions via both stocks and derivatives. The equity management unit has 11 employees.

### *Fixed income management*

The Fund's fixed income unit creates excess returns by identifying factors that can influence both the general interest rate trend and the spread between different types of fixed income securities. The investment horizon is from three to six months.

The unit bases its valuations of interest rate levels and positions on monitoring and assessment of multiple factors; economic and political trends, the market's positioning, future offerings from various issuers and their credit ratings.

These factors are then weighted together to create an optimum portfolio designed to achieve the highest possible return with controlled risk. The unit has three employees.

### *Foreign exchange*

Since the start in 2001, the Fund has handled foreign exchange as a separate asset class in which decisions regarding currency exposure are made independently from investment decisions relating to the underlying assets. Foreign exchange is managed as a separate asset class based on the belief that specialization of

investment decisions generates higher returns and makes the Fund's risk utilization as effective as possible. With two thirds of the portfolio invested in assets outside Sweden, this management is central for total return.

The foreign exchange unit creates excess returns by taking active currency positions. It also oversees the Fund's currency hedging operations and functions as the Fund's treasury unit. The unit handles all liquidity and short-term interest rate management and has business responsibility for the Fund's securities lending program. The unit has four employees.

The investment philosophy for active management is based on systematic positioning in the foreign exchange market. The systematic, model-based approach is combined with discretionary investment processes. The unit trades in some 20 different currencies and takes positions in the majority of these. In most cases, the investment horizon is up to three months.

### **External active management**

#### *Listed assets*

A significant share of the Fund's assets is managed externally. This is undertaken in all markets and asset classes where the internal management organization is not deemed to have the necessary conditions for competitiveness in terms of costs, efficiency and expertise. At present, these include management of non-European equities, US and European credit bonds and alternative investments.

Overall responsibility for the external managers has been assigned to a separate unit that handles tendering, performance measurement and evaluation and possible replacement of managers. The unit has five employees, of whom two work with a special focus on alternative investments.

The goal of the Fund's external management is to generate a higher return by outperforming a benchmark index. The investment philosophy is based on a multi-manager approach, i.e. several managers are appointed for each mandate.

Diversification is a key criterion in setting the manager mix and is strived for in many dimensions, such as investment styles, approaches, risk and return targets.

It is important to select a line-up and mix of managers who together show adequate stability and good capacity to produce active returns after operating expenses.

Performance monitoring and evaluation of the managers is carried out continuously according to a systematic process. Managers of listed assets are normally evaluated on a rolling three-year basis. Other managers are monitored continuously but, for practical reasons, are evaluated less frequently.

### *Alternative investments*

Första AP-fonden's ambition is to successively increase the share of alternative investments in its portfolio. The Fund continuously monitors trends and opportunities in all alternative asset classes and undertakes a thorough quantitative and qualitative analysis of both asset and manager before committing to an investment. Management of alternative investments also employs a multi-manager approach and the goal is to outperform a predetermined index – but with a very long time horizon. Final investment decisions are made by the Managing Director after discussion in a special internal investment committee. The current investments consist of private equity, real estate and, to a small extent, hedge funds.

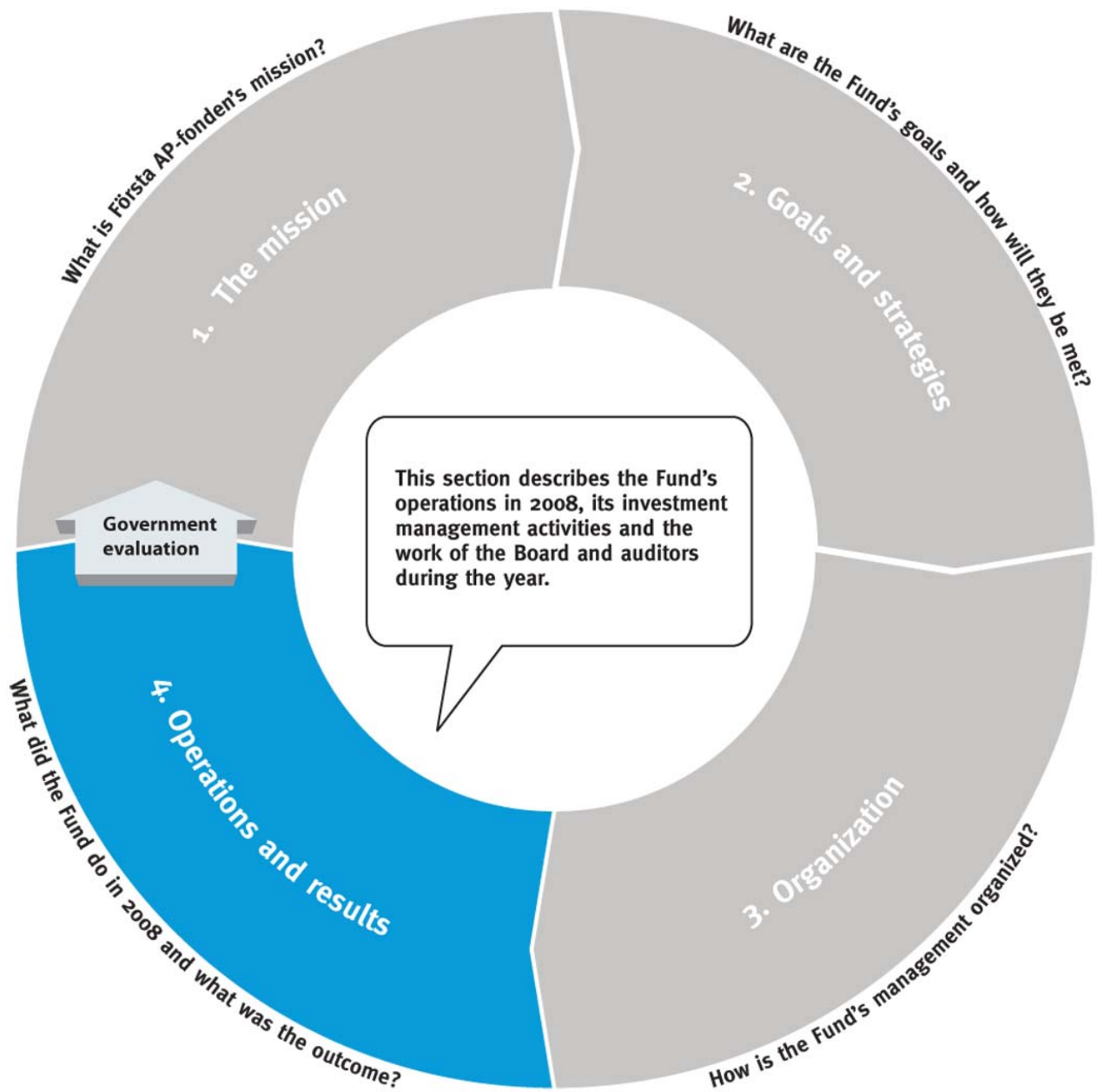
The overall investment philosophy for alternative investments seeks to exploit the fact that these markets are less efficient and transparent. By appointing managers with specialized expertise, the Fund expects to create a higher return than the market as a whole.

In order to limit risk in this asset class, private equity investments are spread between different vintage years, geographical regions, industrial sectors, portfolio company development stages and fund strategies. To a large extent, the unit uses external advisors/partners for investments in private equity funds.

#### Management structure, 31 December 2008

	Internal	External		
	Active	Active	Enhanced	Passive
Allocation	•			
Equities, Sweden	•			
Equities, Europe	•			
Equities, North America		•	•	
Equities, Pacific and Japan		•	•	
Equities, emerging markets		•		•
Fixed income	•	•		
Foreign exchange	•			
Alternative investments		•		

# Operations and results in 2008



## Fund performance

In 2008 the Fund's net assets decreased by SEK -47,164 million and amounted to SEK 171,627 million (218,791) at the end of the year. The change is attributable to the Fund's substantial net investment loss of SEK 48,047 million (9,667) and net capital inflows within the pension system. These flows consisted partly of net pension contributions and disbursements of SEK 983 million and partly of costs for administration of the pension system, which were charged to the Fund in an amount of SEK 152 million. Added to this is SEK 52 million in assets transferred from Fjärde AP-fonden's Special Management Fund.

### Operating income

For 2008 the Fund reported a significant operating loss of SEK 48,047 million, of which net realized and unrealized valued losses/gains accounted for SEK -56,489 million (3,110). The majority of the Fund's assets are listed, which means that they are traded on an active market at quoted prices that represent actual and regularly occurring market transactions. For around 7.3 percent of the Fund's assets there were no quoted market prices to available at year-end, and for these the Fund has instead used generally accepted methodologies for estimating fair market value on the date in question.

The year's unrealized and unrealized value adjustments on listed shares amounted to SEK -66,890 million (2,616). Investment earnings were also charged with operating expenses of SEK 85 million (28) in the form of performance-based fees for external management. These expenses are recognized directly in net investment income in accordance with the accounting policies applied by the Fund.

The net investment loss for unlisted equities was SEK 1,331 million (493), of which the bulk consists of unrealized value adjustments.

Net investment income for fixed income assets was SEK 937 million (727), including a provision of SEK -0.5 billion for anticipated credit losses affecting the Fund. These credit losses are related partly to the bankruptcy of the US-based investment bank Lehman Brothers and partly to a estimated credit loss in the reinvestment programme of the securities lending program.

Investments in derivatives gave rise to SEK 282 million (-388) in realized and unrealized value adjustments. Due to dramatic strengthening of currencies against the Swedish krona, net realized and unrealized foreign exchange gains – a

result of the Fund's decision to maintain currency exposure – were uncommonly high at SEK 10,513 million (-338).

The year's direct return in the form of net interest income and dividends amounted to SEK 8,761 million (6 875). Net interest income also includes income of SEK 101 million (81) from the securities lending program.

In addition, operating income was charged with commission costs relating to fixed fees for external management and costs for custody services. These costs amounted to SEK 139 million (153) in 2008.

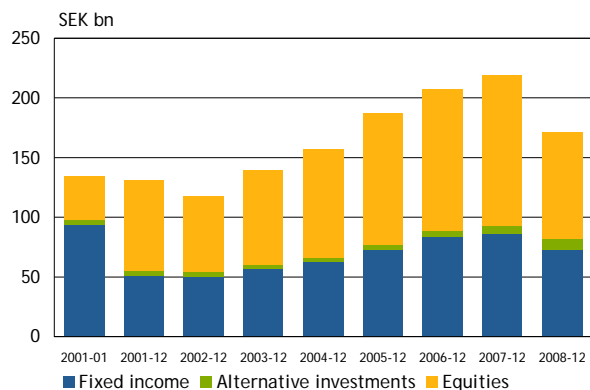
### Operating expenses

Operating expenses totalled SEK 180 million (164). Measured in relation to the average value of net assets, this represents an annual expense ratio of 0.09 percent (0.08). Including commission costs the Fund's expense ratio is 0.16 percent (0.15), where the increase between years is mainly explained by a lower average level of net assets.

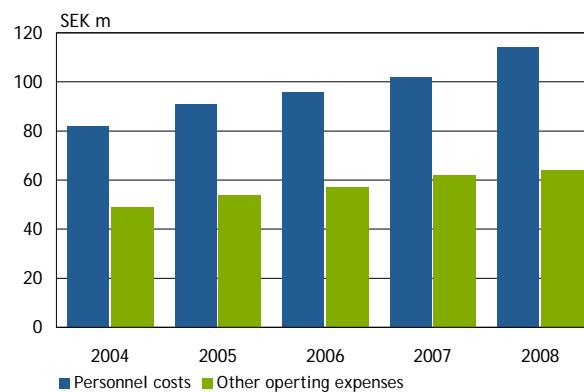
### Market values

Market values and other amounts in the directors' report are based on internal portfolio accounting and therefore contain accrued items as well as netting of assets and liabilities. Due to a differing methods for valuation of foreign assets and liabilities, where valuations in the external accounts are based on the closing bid rate on the balance sheet date and in the internal accounts on the average bid rate on the balance sheet date, a difference of approximately SEK 65 million has arisen in the Fund's closing net assets. As a result, the amounts in the directors' report are not directly reconcilable against items in the balance sheet and income statement.

## Development of net assets



## Operating expenses



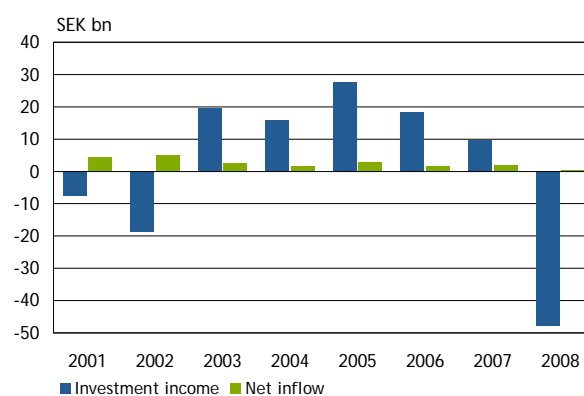
## Fund asset development

### Net assets, SEK m

Opening net assets	218.791
Net pension contributions from SSIA <sup>1</sup>	983
Administrative contribution to SSIA <sup>1</sup>	-152
Transferred from liquidation funds <sup>1</sup>	52
Net investment income for the year	-48.047
<b>Closing net assets</b>	<b>171.627</b>

<sup>1</sup> For details, see Note 15

## Investment income and net inflow



## Five-year overview

	2008	2007	2006	2005	2004	Annualized 2004-2008	Accumulated 2004-2008
<b>Investment income and inflows, SEK bn</b>							
Net inflow from the pension system	0.9	2.0	1.7	2.9	1.7		
Net investment income for the year	-48.0	9.7	18.2	27.6	15.9		
Net assets at 31 December	171.6	218.8	207.1	187.3	156.8		
<b>Return and expenses in total portfolio, %</b>							
Return before expenses	-21.7	4.8	9.8	17.5	11.4		
Operating expenses	0.09	0.08	0.08	0.08	0.09		
Commission costs	0.07	0.07	0.07	0.07	0.08		
Return after expenses	-21.9	4.6	9.6	17.4	11.2		
Inflation	0.9	3.5	1.6	0.82	0.29		
Real return after expenses	-22.8	1.1	8.0	16.6	10.9		
<b>Return and expenses in total portfolio, SEK bn</b>							
Return before expenses	-47.7	10.0	18.5	27.8	16.1		
Operating expenses	0.2	0.2	0.2	0.1	0.1		
Return after expenses	-48.0	9.7	18.2	27.6	15.9		
<b>Return and risk in listed portfolio</b>							
Return, %							
Portfolio	-22.4	4.4	9.2	17.0	11.4	2.9	15.3
Index	-21.7	4.0	8.6	15.5	11.4	2.6	13.8
Active	-0.7	0.4	0.6	1.5	0.0	0.3	1.6
Risk (standard deviation),							
Portfolio	18.0	7.9	6.8	4.9	5.7	9.0	
Index	17.8	7.6	6.6	4.7	5.7	8.8	
Active	1.0	0.5	0.6	0.4	0.3	0.5	
Information ratio	Neg	0.8	1.0	3.8	0.0	0.5	
Sharpe ratio	Neg	0.1	1.0	3.0	1.5	Neg	
<b>Currency exposure</b>							
% of strategic benchmark at 31 Dec.	22.2	18.2	16.0	20.0	20.0		
<b>Active management<sup>1</sup></b>							
% of total portfolio at 31 Dec.	97.4	97.5	98.0	94.8	77.4		
<sup>1</sup> Including enhanced mandates							
<b>External management</b>							
% of total portfolio at 31 Dec.	39.7	36.0	34.2	37.7	24.0		
<b>Expense ratio, % of net assets</b>							
Operating expenses	0.09	0.08	0.08	0.08	0.09		
Operating expenses + commission costs	0.16	0.15	0.15	0.15	0.17		
<b>Portfolio composition at 31 Dec.</b>							
SEK bn	171.6	218.8	207.1	187.3	156.8		
of which,							
Equities, Swedish	18.0	27.8	26.6	23.4	18.9		
Equities, non-Swedish	71.6	98.4	91.9	87.0	71.8		
Nominal fixed income, Swedish	22.8	19.1	21.9	16.4	15.7		
Nominal fixed income, non-Swedish	26.2	44.6	42.7	43.6	34.3		
Index-linked bonds	18.1	21.0	16.9	14.6	12.4		
Alternative investments	9.3	6.4	5.2	4.3	3.3		
Number of employees at 31 Dec.	68	64	64	67	65		

## Total return

Return on the Fund's net assets in 2008 was -21.7 percent, or SEK -47.7 billion, before commission costs and operating expenses and -21.9 percent after these costs and expenses. For 2007, return after expenses was 4.6 percent. Return on the listed portion of the portfolio, which makes up approximately 94.5 percent of the Fund's net assets, was -22.4 percent. Alternative investments, consisting primarily of unlisted real estate and participations in private equity funds, returned -3.5 percent.

Widespread uncertainty about economic development in the USA and its global spinoff effects led to heightened turmoil in the financial markets.

The financial crisis then escalated in the autumn, most markedly after the US-based investment bank Lehman Brothers declared bankruptcy on 15 September.

The large value loss in the portfolio is mainly a result of the global financial crisis, and particularly the year's negative stock market development. The Fund's estimated credit losses in 2008 are limited and amount to SEK 0.5 billion.

Foreign exchange and treasury, external management and fixed income investments all made a positive contribution to active return in 2008.

### Equities

The Fund's equity index returned -39.7 percent during the year. Return on the Fund's equity investments was -40.1 percent, equal to a net investment loss of SEK 56.0 billion.

### Fixed income

The Fund's fixed income index produced a return of 7.8 percent in 2008. Return on the Fund's bond portfolio was 8.3 percent, or SEK 5.8 billion before expenses.

### Foreign exchange

Foreign exchange has a low correlation with other asset classes. The Fund has therefore chosen to maintain open currency exposure of around 20 percent in order to reduce volatility in total return over time. In 2008 currency exposure was increased by close to 2 percentage points. Because the Swedish krona weakened during 2008, the open position had a positive impact on the year's investment earnings.

### Alternative investments

This asset class is made up of unlisted real estate equities and participations in private equity and hedge funds. Alternative investments generated a return of -3.5 percent, equal to a net investment loss of SEK 0.3 billion for 2008. The negative contribution for the year was mainly attributable to holdings of real estate equities.

### Five-year overview

At year-end 2000 the Fund was assigned assets worth SEK 134.0 billion. Over the period from 2001 to 2008 the Fund then received additional net contributions of SEK 20.9 billion from the pension system and liquidation funds. The total capital inflow thus amounts to SEK 154.9 billion. At the end of 2008 the market value of the Fund's assets was SEK 171.6 billion. During the period from 2001 to 2008 the investments have yielded an annualized return of 1.2 percent after expenses. Cumulative investment income for the same period was SEK 16.7 billion. Return is strongly influenced by development in the stock markets. The stock market plunge of 2001-2003 was followed by a sharp upswing in 2004-2007, which was then replaced by a dramatic downturn during 2008.

### Net investment income in 2008<sup>1</sup>

	Contribution SEK bn	%-points
Equities, Swedish	-11.6	-5.3
Equities, non-Swedish <sup>2</sup>	-37.7	-17.1
Equities, emerging markets	-6.7	-3.0
Fixed income <sup>2</sup>	5.8	2.6
Alternative investments	-0.3	-0.1
Foreign exchange and treasury	2.8	1.3
<b>Total</b>	<b>-47.7</b>	<b>-21.7</b>

<sup>1</sup> Before expenses.

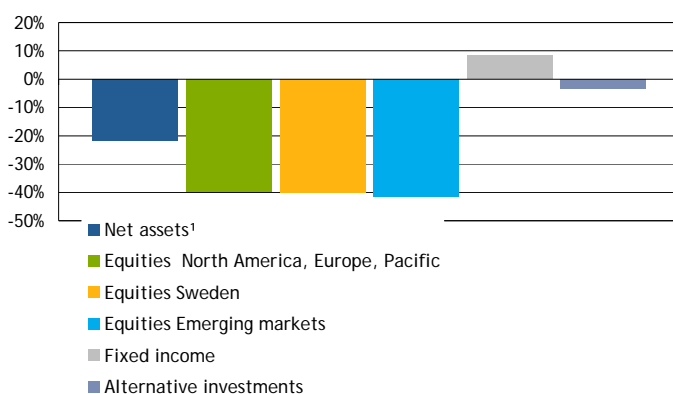
<sup>2</sup> Currency hedged return.

## Portfolio return

	2008	2007	2006	2005	2004	Annual return
Equities, Swedish	-40.0	-3.8	24.9	34.4	26.6	4.2
Equities, non-Swedish <sup>1</sup>	-39.9	3.8	13.7	14.3	12.1	-1.9
Equities, emerging markets	-41.5	30.6	12.5	62.5	15.8	10.1
<i>Total equities</i>	<i>-40.1</i>	<i>4.7</i>	<i>16.1</i>	<i>22.1</i>	<i>15.5</i>	<i>0.5</i>
Fixed income <sup>1</sup>	8.3	4.2	1.3	4.0	6.9	4.9
<b>Total listed assets</b>	<b>-22.4</b>	<b>4.4</b>	<b>9.2</b>	<b>17.0</b>	<b>11.4</b>	<b>2.9</b>
Alternative investments	-3.5	18.6	38.4	47.6	13.2	21.5
<b>Total return</b>	<b>-21.7</b>	<b>4.8</b>	<b>9.8</b>	<b>17.5</b>	<b>11.4</b>	<b>3.4</b>

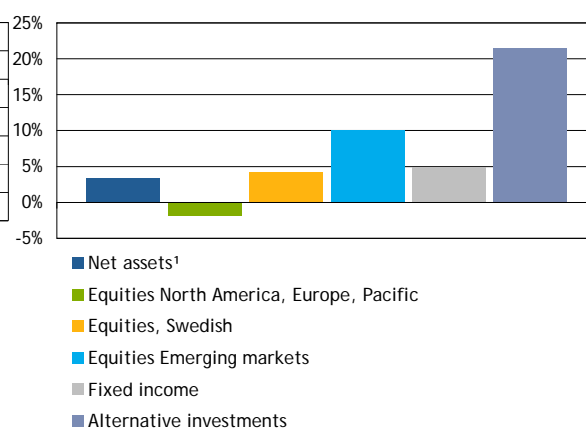
<sup>1</sup> Currency hedged return.

## SEK return by asset class, 2008

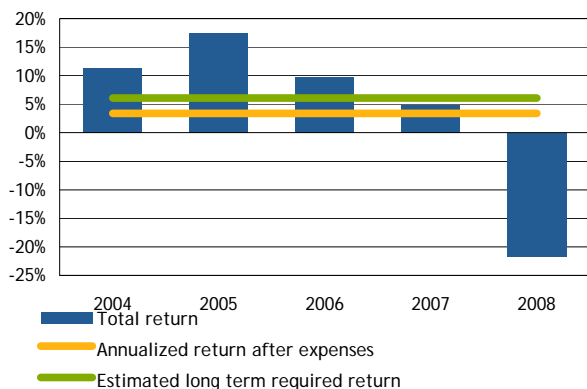


<sup>1</sup> Currency hedged return with the exception of equities in emerging markets, where return is reported without hedging due to a lack of hedge opportunities.

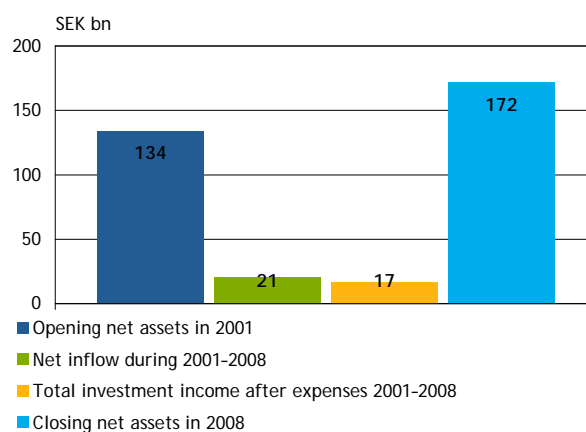
## Annualized return by asset class 2004-2008



## Total return 2004-2008



## Net assets, net inflow and investment income since 2001



## Active return

Första AP-fonden's investment model is based on active management of the Fund's assets. The goal is to outperform return on the strategic benchmark by 0.5 percentage points both annually and over rolling five-year periods. In 2008 the Fund earned a return on listed assets of -22.4 percent, compared to a return of -21.7 percent for the strategic benchmark. Active return for 2008 was -0.7 percentage points.

Three of the Fund's five investment units made a positive contribution to active return in 2008; foreign exchange and treasury, external management and fixed income.

### Active risk

The Fund's active positioning gives rise to active risk, i.e. fluctuations in return caused by over- and underweights relative to the strategic benchmark. Active risk is an important metric that is both measured historically and forecasted continuously. The Fund's realized active risk during the year was in the range of 0.5–1.6 percent.

### Risk-adjusted return

The Fund works with a large number of independent internal and external mandates to achieve a high degree of risk diversification in the portfolio. The idea is for risk in the individual mandates to partially offset each other when the Fund's total risk is aggregated. In evaluation of the chosen investment

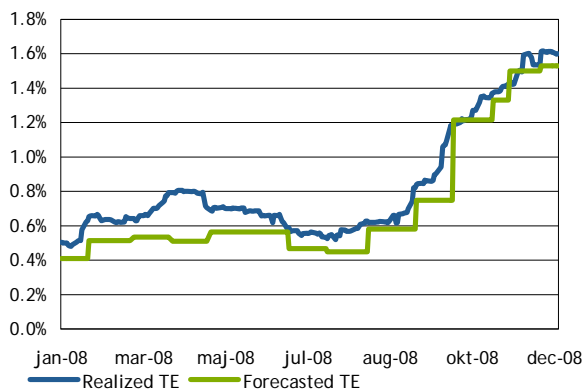
strategies, it is important to not only measure return but also consider the level of risk with which this return was achieved. The most widely used measure of a manager's risk-adjusted return is the information ratio, which relates active return to the risk taken by deviating from index. The information ratio for 2008 was negative.

### Five-year overview

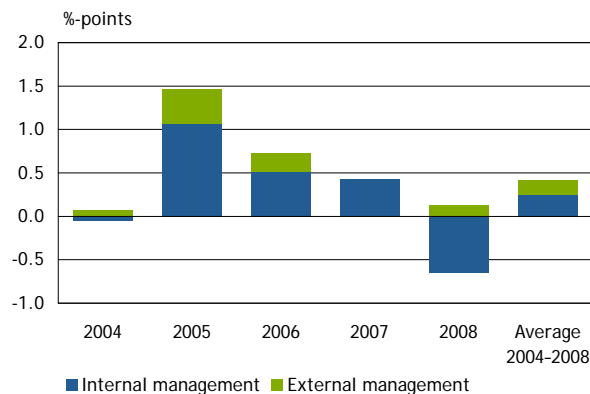
Measured over the period from 2003 to 2007, the Fund's active management produced an annualized return of 0.5 percentage points, with fixed income, foreign exchange and equity positions all delivering above-index returns during the period. For 2008, return on active management was -0.7 percentage points, equal to an investment loss of SEK 1.3 billion before operating expenses. Annualized active return for the period 2004–2008 was 0.3 percentage points. Over the same period, active return has been positive in 63 percent of the months and contributed a total of SEK 3.0 billion to the Fund's total return.

The target for risk-adjusted return, measured as an information ratio, should exceed 0.3 percentage points over a rolling five-year period. Over the past five-year period, the average annual information ratio was 0.5.

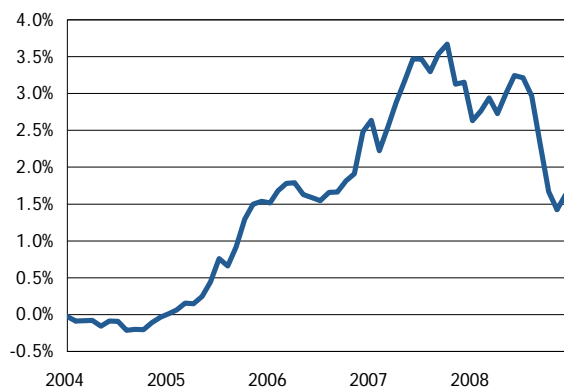
Forecasted and realized tracking error in 2008 for the Fund's listed assets



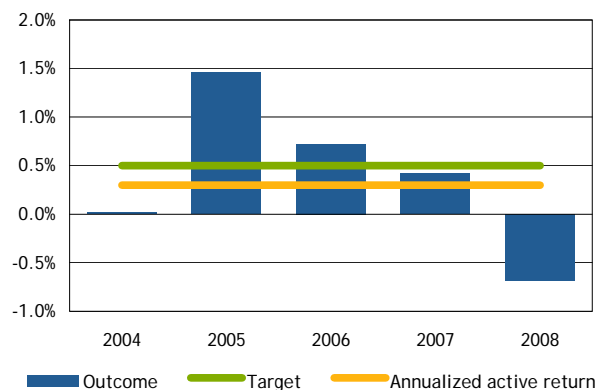
Active return, internal and external management



Cumulative active return on listed assets,  
January 2004–December 2008



Annualized active return on listed assets



Active return on listed assets in 2008, %-points

Contribution from:	Per unit <sup>1</sup>	Total
Global macro allocation	-0.25	
Tactical asset allocation	-0.26	
Intern equity management, Sweden	-1.30	
Intern equity management, Europe	-0.62	
Internal fixed income management	0.35	
Foreign exchange and treasury	0.18	
<b>Total internal management</b>		<b>-0.66</b>
External management	0.36	
<b>Total internal and external management</b>		<b>-0.52</b>
Securities lending		-0.10
Other		-0.07
<b>Total active return</b>		<b>-0.69</b>

<sup>1</sup> Active return relative to each unit's index.

## Internal management

At year-end 2008 the Fund had assets of SEK 104 billion under internal management. This is equal to 60 percent of total net assets, and can be compared to the previous year's figure of 64 percent. The assets were invested in listed securities, both Swedish and non-Swedish. At the beginning of 2008, five units were responsible for the Fund's active management; global macro allocation, tactical asset allocation, fixed income, foreign exchange and equities. In the spring, global macro allocation was merged with the new unit for strategic asset allocation.

Over the past five-year period, internal active management contributed an average of 0.3 percentage points annually to the Fund's total return.

### Global macro allocation

Global macro allocation closed its positions on 31 May and was merged with the new unit for strategic asset allocation. Active return for 2008 was -0.25 percentage points. The underlying assumption behind position-taking in the spring of 2008 was that the global economy was headed for recession and that the central banks would react by slashing key interest rates. However, surging raw material costs in the spring sparked inflationary concern among the central banks rather than fears of economic slowing. Furthermore, exchange-traded short-term interest rates climbed in pace with rising risk premiums in the banking system. Higher short-term interest rates in the spring and the banks' widened interest rate gap against treasury bills were main factors behind the unit's negative investment return.

### Tactical asset allocation

In 2008 the tactical asset allocation unit made a negative contribution of -0.26 percentage points to the Fund's active return. A large share of the unit's return arose in the latter half of the year when market swings were unusually huge, leading to a higher level of risk than anticipated. In particular, costs for daily maintenance of the Fund's position relative to index, re-balancing and currency movements detracted significantly from return under the prevailing volatile market conditions. The year's discretionary decisions made a negative contribution, while model-driven asset allocation delivered a return of around 0 percent.

### Equities

Internal equity management is divided between two mandates, one Swedish and one European.

#### Swedish equities

At year-end 2008 the Swedish equity portfolio amounted to SEK 18.0 billion, a decrease of SEK 9.8 billion. The decrease is mainly due to negative development in the stock market.

A first half year of positive returns was followed by a second half when the portfolio underperformed index. For the full year, the Swedish equity portfolio delivered an active return of -1.3 percentage points relative to index, after three consecutive years of above-index returns. The lower return is related to a turbulent period from September to November when the stock market fell sharply and market risk rose to historically extreme levels.

In this highly volatile market, relatively small over- and underweights led to significant variations in relative returns. Overweights in SSAB and ABB were reduced during the summer, but not enough to prevent a loss in the latter half of the year. The portfolio was also underweighted in Investor and Assa Abloy, which performed better than the stock market in autumn 2008. An overweight in Swedbank made a negative contribution that was partly compensated by underweights in SEB and Nordea, both of which underperformed the stock market during the autumn. Overweights in the telecom service providers Tele2 and TeliaSonera and the medical technology company Elekta contributed positively, as did a cautious stance toward construction companies. At year-end the portfolio contained some 50 companies.

#### Largest Swedish equity holdings, 31 Dec. 2008

Company	Market value, SEK m	% of Fund's net assets
Hennes & Mauritz	1,999	1.2
TeliaSonera	1,728	1.0
Ericsson A and B	1,659	1.0
Nordea	1,291	0.8
Volvo A and B	877	0.5

#### Largest voting rights in Swedish holdings, 31 Dec. 2008

Company	Market value, SEK m	% of votes
TradeDoubler	56	5.3
Oriflame	176	1.4
Atlas Copco	804	1.0
Elekta	85	1.2
PA Resources	19	1.1

### *European equities*

At the end of 2008 the Fund had European equities under management for a value of SEK 21.6 billion, a decrease of SEK 9.4 billion compared to 2007. The value loss is mainly explained by the negative trend in the equity markets.

2008 was characterized by two periods with very different effects on the equity market and active return. The first half of the year was well matched to the Fund's investment philosophy based on stock selection within and allocation between sectors, which resulted in a positive active return. After mid-year, however, active performance was inhibited by a combination of significantly increased correlation between equity returns and higher volatility. The recovery that took place in the fourth quarter was not sufficient to offset the rapid fall in late summer, a pattern that was repeated in all sector portfolios. The strongest sector was Financials, which outperformed index. Industrials matched index return, while the other four sector portfolios underperformed. The total portfolio produced an active return of -0.6 percentage points in relation to index.

### **Fixed income**

At year-end 2008 the Fund's fixed income portfolio amounted to SEK 67.1 billion, a decrease of 21 percentage points or SEK 17.6 billion compared to 2007. The drop in value is mainly due to internal reallocation in the total portfolio. SEK 57.9 billion, or 86 percent, of the fixed income portfolio was managed internally.

The portfolio delivered an active return of 0.35 percentage points relative to index.

Widespread uncertainty about economic development in the USA and its global spinoff effects created turmoil in the financial markets and led to high volatility. A cautious strategy was chosen through an underweight in externally managed corporate bonds. The assessment was that investments of this type would yield lower returns than treasury bills. Parallel to this, a relatively high share of index-linked bonds was chosen. Together with positions for rising interest rates, this made a positive contribution to the portfolio's active return in the first half of the year. When the financial crisis escalated in the autumn, liquidity in the second hand market dried up and caused volatility to rise. Credit and liquidity premiums widened at the same time that transaction costs rose. It became more difficult to pursue new strategies in the portfolio and part of the positive active return was lost in the last few months.

### **Foreign exchange and treasury**

Första AP-fonden's foreign exchange unit and treasury contributed positively to the Fund's total return. The foreign exchange unit's active currency positioning and currency hedges added 0.18 percentage points to the Fund's total return, while securities lending made a negative contribution of -0.1 percentage points.

2008 was an extreme year in all asset markets, which had a severe impact on the foreign exchange market. Exchange rates are a translation factor for global asset prices, and affect buying power between nations and the opportunities for companies to export their goods and services. In the first half of the year, slowing in the US economy, falling key interest rates and the country's massive trade and budget deficits made investors shy away from dollar exposure and caused the US dollar to weaken against all major currencies.

Amid growing unrest in the global asset markets during the second half of 2008, investors pulled their capital back home to Europe, the USA and above all Japan. The US dollar gained against all currencies except the Swiss franc and Japanese yen, which both climbed even more strongly. The UK suffered the effects of a shrinking financial sector and was the [G10](#) currency that fell most sharply during the year. Against the US dollar, the yen gained 24 percent while the British pound lost 27 Percent. The change against the euro was only a few percentage points. The Swedish krona is one of the small currencies that face difficulties in a climate where investors seek to reduce foreign exchange exposure. The krona fell by 13 percent against the euro and was traded at a low of 11.4 in December.

Liquidity in the markets for both foreign currency spot and futures trading decreased dramatically during the year. Although the US had the year's lowest key interest rate, a shortage of capital in the market has made the cost of borrowing dollars higher than for several other currencies.

The foreign exchange unit's active currency positions and currency hedges added 0.18 percentage points to the Fund's total return. The unit applies a systematic and quantitative approach in its positioning, combined with discretionary decisions. The business model is based on diversification and spread of risk between currency areas, with daily adjustment of positions. The unit showed relatively even earnings performance throughout most of the year and several different positions contributed to the positive return.

The unit is also responsible for the Fund's securities lending, for which the Fund has chosen to delegate program management to its custodian bank. While the underlying lending component made a positive contribution, one of the

investments in the collateral reinvestment component was made in a security with a credit rating of "A". The Fund's assessment is that this holding will give rise to a credit loss that caused the securities lending program to detract -0.10 percentage points from the Fund's return.

## External management

Assets under external management at year-end 2008 amounted to SEK 67.9 billion. This is equal to 40 percent of the Fund's net assets, an increase of 4 percentage points over the previous year. Of total externally managed assets, SEK 58.7 billion was invested in listed assets.

### Listed assets

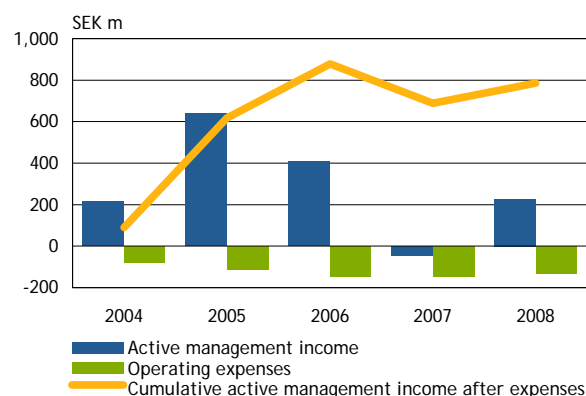
The assets were divided between six different [mandates](#); US equities (large and small caps), Japanese equities (large caps), Pacific equities excluding Japan (large caps), emerging market equities, US corporate bonds and European corporate bonds.

In 2008 the Fund completed a procurement of equity managers in the Pacific region (excluding Japan). A new tender process for management of US small cap equities was started during the year and is planned for completion in late Spring 2009. Assets were also transferred to a mandate for European corporate bonds during the year.

The assets are divided between 20 different managers and 26 different [management mandates](#), of which the majority active or enhanced. A couple of the managers were already in place at the beginning of 2004, but most have been added since

then and the managed assets have thus been built up gradually. Over the past five-year period these managers made an average annual contribution of 0.16 percentage points to the Fund's total active return. In 2008, the combined contribution of the external mandates was 0.36 percentage points.

### Income and expenses in active mgmt - external managers (listed assets)



### External management mandates, 31 December 2008

Manager	Market	Type	SEK bn	Starting date <sup>1</sup>
<b>Equities<sup>3</sup></b>				
Barclays Global Investors	North America, large caps	Enhanced	26.5	Jan-01
Dexia	North America, large caps	Active	0.8	Oct-05
Dimensional Fund Advisors <sup>2</sup>	North America, small caps	Active	0.8	May-04
Ironbridge	North America, small caps	Active	0.6	May-04
Martingale	North America, small caps	Active	0.3	May-04
Morgan Stanley	North America, small caps	Active	0.6	May-04
UBS	North America, small caps	Active	0.3	May-04
JP Morgan <sup>1</sup>	Asia/Pacific	Enhanced	0.9	Sep-08
Treasury Asia <sup>1</sup>	Asia/Pacific	Active	0.5	Sep-08
Capital International	Asia/Pacific	Active	1.0	Dec-03
Lloyd George	Asia/Pacific	Active	1.0	Apr-04
Marathon	Japan	Active	1.9	Oct-07
Barclays Global Investors	Japan	Active	1.1	Oct-07
Capital International	Japan	Active	1.0	Oct-07
Axa Rosenberg	Japan	Active	1.3	Oct-07
Alliance Bernstein	Japan	Active	1.2	Oct-07
UBS - DSI	Japan	Enhanced	0.6	Oct-07
Aberdeen	Emerging markets	Active	1.5	Jun-06
Alliance Bernstein	Emerging markets	Active	1.3	Jun-06
Emerging Markets Mgmt	Emerging markets	Active	1.3	Jun-06
Marvin & Palmer	Emerging markets	Active	0.2	Mar-06
BlackRock	Emerging markets	Passive	4.4	Jun-06
PanAgora	Emerging markets	Active	0.4	Jun-06
<b>Total equities</b>			<b>49.5</b>	
<b>Fixed income</b>				
Blackrock <sup>3</sup>	Corporate bonds, USA	Enhanced	6.3	Oct-99
Blackrock EMU	Corporate bonds, Europe	Active	2.8	Jul-08
<b>Total fixed income</b>			<b>9.1</b>	
<b>Total external management, listed assets</b>			<b>58.7</b>	

<sup>1</sup> Most recent procurement.

<sup>2</sup> Two mandates.

<sup>3</sup> BlackRock Inc.'s mandate commenced in 1999, i.e. prior to reorganization of the AP funds. Första AP-fonden allowed the mandate to continue under the new management that was started on 1 January 2001 and increased during 2003.

### *US equities, large caps*

For management of US large cap equities, the Fund has chosen to place a sizeable share of the assets under enhanced management. This strategy is based on the use of quantitative methods and in-depth knowledge of index management and low-risk index enhancements to generate excess returns. Management of the enhanced mandate has been handled by Barclays since 2005, with an increased volume in 2006. Management of the mandate has been supplemented by Dexia, which also has a quantitative management style but uses a high degree of risk.

The total volume under management at year-end 2008 was SEK 27.3 billion. The year's active return was 0.2 percentage points before fixed and performance-based management fees. Over the past three-year period, annualized return was 0.5 percentage points and the information ratio was 0.4.

### **Largest foreign equity holdings, 31 Dec. 2008**

Company	Market value, SEK m	% of the Fund's net assets
Exxon Mobil	1,487	0.9
AstraZeneca	1,011	0.6
Nestle SA	720	0.4
BP	640	0.4
Procter & Gamble Co	640	0.4

### *US equities, small caps*

In 2004 these assets were assigned to five different managers offering a well balanced mix of management styles and growth/value. A few managers base their investment decisions on traditional fundamental research, others on quantitative analysis and one on an approach resembling behavioural science. These managers also have varying risk profiles.

The total volume under management at year-end 2008 was SEK 2.6 billion. Active return for 2008 was -1.9 percentage points before fixed and performance-based management fees. Annualized active return over the past three-year period was -2.1 percentage points and the information ratio was negative.

### *Japanese equities, large caps*

The total volume under management at year-end 2008 was SEK 7.1 billion. Active return for 2008 was -0.6 percentage points before fixed and performance-based management fees. Annualized active return over the past three-year period was -1.7 percentage points and the information ratio was negative.

### *Pacific equities (excl. Japan), large caps*

The mandate for Pacific equities amounted to SEK 3.4 billion at year-end 2008 and is handled by four managers. Active return for 2008 was -0.95 percentage points before fixed and performance-based management fees. Over the past three-year period, annualized active return was 1.8 percentage points and the information ratio was 0.4.

### *Emerging market equities, large caps*

This mandate, in its current form, is relatively new to the Fund. The main transfer of assets to the new managers took place in June 2006. The total volume under management at year-end 2008 was SEK 9.1 billion.

Active return for 2008 was 1.3 percentage points before fixed and performance-based management fees. Annualized active return since the start of the mandate was 1.1 percentage points and the information ratio was 0.2.

### *US corporate bonds*

US corporate bonds are managed under an enhanced mandate. Investments are made in the US credit market in the form of bonds. One manager is responsible for the entire investment portfolio of SEK 6.3 billion.

Active return for 2008 was -3.5 percentage points before fixed and performance-based management fees. For the past three-year period, annualized active return was 1.9 percentage points and the information ratio was 2.3.

### *European corporate bonds*

In the past year the Fund transferred asset to a mandate in European corporate bonds. The mandate has an active orientation and the investments are made in the European credit market in the form of bonds. One manager is responsible for the entire investment portfolio of SEK 2.8 billion.

Active return for 2008 was 0.3 percentage points before fixed and performance-based management fees, and the information ratio was 0.1.

### **Alternative investments**

At year-end 2008 the value of the Fund's unlisted holdings – alternative investments – amounted to SEK 9.3 billion, equal to approximately 5.4 percent of the Fund's net assets. Due to their relative illiquidity, these assets are not managed actively in the same way as listed assets. Consequently, return on alternative investments is not included in calculation of the Fund's active return.

In 2008 Första AP-fonden's alternative investments produced a negative return for the first time, at -3.5 percent. During the period from 2004–2008 the annualized average return was 21.5 percent. The year's return is mainly explained

by negative development for the holding in [Vasakronan](#), which returned -2.3 percent.

#### *Vasakronan*

AP1, AP2, AP3 and AP4 each own 25 percent of [Vasakronan](#). In 2008 AP Fastigheter acquired the property company Vasakronan and AP Fastigheter subsequently changed name to Vasakronan. In connection with the acquisition, Första AP-fonden provided additional capital of SEK 2.7 billion, of which SEK 2.2 billion in the form of a promissory note and SEK 0.5 billion in shareholder contributions. The acquisition has created a company focused on long-term management of commercial properties in growth areas. At year-end 2008 Vasakronan had an estimated market value of SEK 27.8 billion.

The market value of Första AP-fonden's holding at year-end 2008 was SEK 6.9 billion (5.0). Since 2004, the Fund's investment has produced an annualized return of more than 21 percent.

#### *Private equity and hedge funds*

The Fund's private equity investments include direct holdings in private equity funds and participations in three funds-of-funds with customized mandates. The direct holdings consist of InnKap 3 and InnKap 4, which invest in early stage Nordic companies in the ICT and life science sectors. The fund-of-funds program consists of investments in private equity funds in North America, Europe and globally. Return in 2008 was -5.2 percentage points, measured in SEK.

The Fund's investments in hedge funds consist of two direct holdings in Cevian Capital I and Cevian Capital II. Cevian is a so-called activist fund that acquires significant minority ownership positions in undervalued listed companies in the Nordic region, and in the past year also Germany. The investments in Cevian Capital I have produced a return after expenses of around -25 percent in 2008 and an annualized return of 50 percent since the start in 2003.

The Fund's goal for its private equity investments is to achieve a long-term return at least on par with the MSCI World Index +4 percentage points (after expenses). This investment program is still in the build-up phase and is characterized by a long investment horizon, unlisted assets and low liquidity. The Fund's return on private equity and hedge funds surpassed the target for the year.

As a consequence of the financial crisis, Första AP-fonden has written-down its private equity assets by approximately 15 percent in local currency. The write-down has been offset by the Fund's unrealized foreign exchange gains in non-Swedish investments, and the write-down is based on a separate and current valuation performed by the fund manager.

In view of the time lag typical of valuations in this market, additional write-downs may be made in the spring of 2009. An additional write-down by 10 percentage points would have an impact of SEK -0.2 billion on the Fund's investment income.

#### External management mandates, 31 December 2008, unlisted assets

Fund/venture capital company	Market	Currency	Total commitment, millions	Invested volume, millions	Starting date
InnKap 3	Nordic	EUR	7	7	2004
InnKap 4	Nordic	EUR	12	4	2005
LGT	Western Europe	EUR	360	72	2006
WPGP	North America	USD	470	95	2006
Hamilton Lane Advisors	Global	USD	310	78	2006
Cevian Capital I	Nordic	EUR	12	39	2003
Cevian Capital II	North America	EUR	40	40	2006

#### Net contribution from external management of unlisted assets, SEK m

	Unlisted assets
Gross income	-17
Paid management fees recognized in the balance sheet	-51
Management fees recognized as commission costs	-4
Net contribution	-72
Net assets under management, 31 Dec. 2008	2,429
Invested volume, 31 Dec. 2008	2,324
Investment commitments, 31 Dec. 2008	10,899

## Portfolio composition

### Strategic benchmark

The ALM study that was started in the previous year was completed at the beginning of 2008. Based on this and mid-term market expectations, implementation of the new strategic benchmark commenced in May 2008. In view of the escalating financial turbulence, however the implementation was broken off in the autumn.

### Portfolio composition

At year-end 2008 the Fund had net assets under management of SEK 171.6 billion (218.8). The total portfolio consisted of 55 percent (59) equities, 47 percent (39) fixed income investments and 5.5 percent (3) alternative (unlisted) investments. The Fund's net investments in 2008 amounted to SEK 0.6 billion, equal to the year's capital inflow from the pension system and Fjärde AP-fonden's special management fund. Net investments were made primarily in equities in order to maintain a spread between equities and bonds proportionate to their weightings in the strategic benchmark. The share of assets under active or enhanced management was 97 percent (98). The Fund's total currency exposure at the end of 2008 was 22.2 percent and was mainly attributable to an open currency position in USD, EUR, GBP, JPY and NOK.

At 31 December 2008, 40 percent (36) of the Fund's net assets were under external management. Of the total of 26 external management mandates, 24 refer to equities.

### Equities

The market value of the Fund's equity portfolio at 31 December 2008 was SEK 89.6 billion, of which SEK 49.5 billion was managed externally. In addition to spot investments, the Fund's exposure to the equity markets is also managed with derivative positions. Investments in derivatives have been made predominantly in standardized equity futures, which used for efficient management, portfolio rebalancing and position-taking in asset allocation.

At the end of the year the Fund's exposure to the equity markets was in line with the strategic benchmark. The Fund's split of equity investments between sectors and regions is shown in the diagram on the next page. The equity portfolio was well diversified and no single equity holding exceeded 1.2 of the total market value of the Fund's portfolio.

Around 36 percent of equity investments during the year consisted of enhanced and passive mandates with a low degree of active risk. Other parts of the portfolio were managed actively, with an active risk of 1–10 percent, depending on the mandate. All in all, the level of active risk in equities increased during the year. At year end 2008, active risk in the total equity portfolio was 0.8 percent.

### Portfolio composition

Asset class	Portfolio value <sup>1</sup>		Exposure <sup>2</sup> , %	Portfolio value <sup>1</sup>		Exposure <sup>2</sup> , %	Benchmark	
	SEK m, 31 Dec. 2008	% of net assets		SEK m, 31 Dec. 2007	% of net assets		31 Dec. 2008, %	%
<b>Equities<sup>3</sup></b>								
Swedish	17,983	10.5	11.2	27,781	12.7	13.0	11.2	
Non-Swedish <sup>4</sup>	60,966	35.5	37.7	84,844	38.8	40.0	37.7	
Emerging markets	10,627	6.2	6.2	13,597	6.2	6.2	6.2	
<b>Total equities</b>	<b>89,576</b>	<b>52.2</b>	<b>55.1</b>	<b>126,222</b>	<b>57.7</b>	<b>59.2</b>	<b>55.1</b>	
<b>Fixed income<sup>3</sup></b>								
Nominal Swedish	22,835	13.3		19,061	8.7		6.3	
Nominal non-Swedish <sup>4</sup>	26,174	15.3		44,635	20.4		24.2	
Index-linked	18,112	10.6		21,008	9.6		9.7	
<b>Total fixed income</b>	<b>67,120</b>	<b>39.1</b>	<b>47.1<sup>5</sup></b>	<b>84,704</b>	<b>38.7</b>	<b>39.2<sup>5</sup></b>	<b>40.2</b>	
Cash/foreign exchange <sup>3</sup>	5,577	3.3		1,405	0.6	0.7	0.0	
<b>Total listed assets</b>	<b>162,273</b>	<b>94.5</b>	<b>102.2</b>	<b>212,331</b>	<b>97.0</b>	<b>99.1</b>	<b>95.3</b>	
Alternative investments	9,354	5.5	5.4	6,460	3.0	2.9	4.7	
<b>Total portfolio</b>	<b>171,627</b>	<b>100.0</b>	<b>107.6</b>	<b>218,791</b>	<b>100.0</b>	<b>102.1</b>	<b>100.0</b>	
Currency exposure	38,182		22.2	41,930		19.2	19.8	

<sup>1</sup> Market value of spot and derivative positions plus cash and cash equivalents.

<sup>2</sup> Also including the nominal amount of derivative positions with a market value of zero. In calculating exposure to fixed-income assets, consideration has been given to the interest sensitivity (duration) of the investments.

<sup>3</sup> Including tactical and global macro allocation.

<sup>4</sup> Including 100 percent currency hedge.

<sup>5</sup> Managed as a single portfolio, for which reason no specification of exposure by type of security is possible.

## Fixed income

The market value of the Fund's fixed income portfolio at year-end 2008 was SEK 67.1 billion (84.7) of which SEK 9.1 billion was managed externally. The Fund's exposure to fixed income markets is managed with spot and derivative positions. Trading in derivatives has been used as an efficient means for achieving the desired exposure.

Aside from Swedish and foreign government bonds, holdings of fixed income securities consisted of bonds issued by intermediary institutions and corporate bonds. The portfolio's creditworthiness is deemed high and all bonds were rated "Investment Grade". The portion of secure bonds exceeded the 30 percent minimum prescribed by the investment rules.

Secure bonds include Swedish and foreign government bonds. The Fund has made an active decision not to have holdings in so-called structured interest products.

Active risk in fixed income management has varied between 0.3 percent and 0.6 percent.

## Foreign exchange

At the end of 2008 the Fund's currency exposure was 22.2 percent. The largest positions were the Fund's exposure to EUR, GBP and USD. Active currency risk at year-end 2008 was close to SEK 60 million in RVaR (Relative Value at Risk).

## Alternative investments

At year-end 2008 the Fund's holdings of alternative investments consisted of a 25 percent stake in [Vasakronan](#) and holdings in private equity and hedge funds.. The total market value at 31 December 2008 was SEK 9.3 billion.

The Fund's total commitments to private equity funds at year-end amounted to SEK 10.9 billion, of which SEK 2.3 billion had been invested. The Fund's goal within 6–8 years is to achieve a private equity exposure equal to 5 percent of the total portfolio.

The Fund's participations in hedge funds consist of direct holdings in Cevian Capital and Cevian Capital II. Cevian is a so-called activist fund that acquires significant minority ownership positions in undervalued listed companies in Northern Europe.

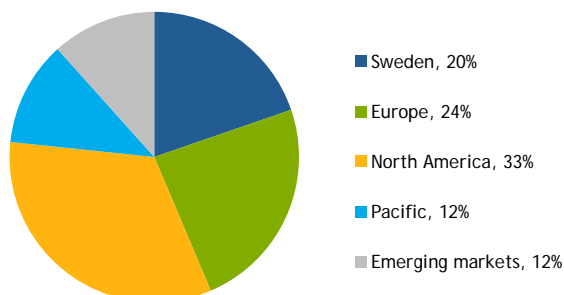
## Management structure, 31 Dec. 2008

Portfolio value, SEK bn	Internal Active	External		
		Active	Enhanced	Passive
Allocation <sup>1</sup>				
Equities, Sweden	18.0			
Equities, Europe	21.6			
Equities, North America		3.4	26.5	
Equities, Pacific and Japan		8.9	1.6	
Equities, Emerging markets		4.7		4.4
Fixed income	58.0	9.1		
Foreign exchange <sup>1</sup>	6.1			
Alternative investments		9.3 <sup>2</sup>		
<b>Total</b>	<b>103.7</b>	<b>35.4</b>	<b>28.1</b>	<b>4.4</b>

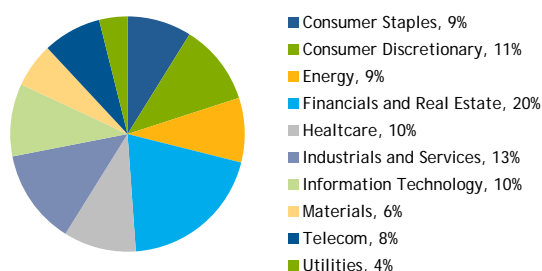
<sup>1</sup> Investments are made predominantly in derivative instruments.

<sup>2</sup> SEK 6.9 bn refers to the Fund's investment in Vasakronan.

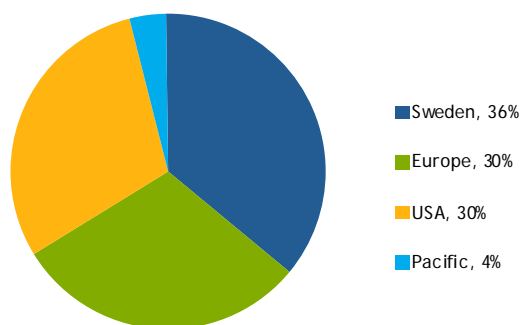
## Equity investments by region, 31 Dec. 2008



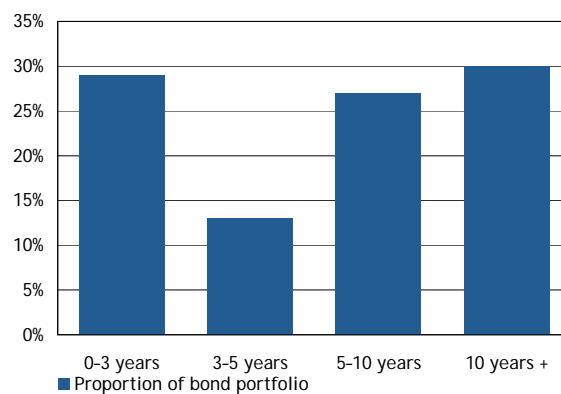
## Sector allocation of equities, 31 Dec. 2008



### Fixed income investments by region, 31 Dec. 2008



### Nominal bonds by time to maturity, 31 Dec. 2008



### Currency exposure, SEK m

	USD	GBP	EUR	JPY	Other currencies	Total
Shares and participations	33,032	6,346	12,454	6,992	14,915	73,739
Bonds and other fixed income securities	20,625	1,626	18,442	2,483	-	43,176
Other assets	656	4	14	380	325	1,379
Derivatives	-40,742	-4,982	-18,794	8,414	-7,180	-80,112
<b>Net currency exposure, 31 Dec. 2008</b>	<b>13,571</b>	<b>2,994</b>	<b>12,116</b>	<b>1,441</b>	<b>8,060</b>	<b>38,182</b>
Net currency exposure, 30 June 2008	12,872	3,444	18,914	-5,175	10,700	40,755
Net currency exposure, 31 Dec. 2007	15,738	7,177	15,003	-2,528	6,540	41,930

## Corporate governance in 2008

### Corporate governance in 2008

Första AP-fonden is one of the 15 largest holders of equities in the Swedish market. As a result, the Fund takes part in preparations ahead of general shareholder meetings either directly in the nominating committees or in collaboration with other shareholders represented on these committees. In 2008 the Fund participated in 38 shareholder meetings, including 32 annual and six extraordinary shareholder meetings. The Fund was also represented on the nominating committee of [Lundin Petroleum](#).

### In favour of self-regulation

The Fund is in favour of the Swedish system of self-regulation and is working actively to preserve it. Together with the Swedish Companies Act this self-regulation, partly through the Swedish Code of Corporate Governance and active ownership, provides a foundation for good corporate governance. In 2008 the Code was revised to require compliance even by smaller listed companies.

Första AP-fonden supports the inclusion of smaller companies in the Code, since it is important for confidence in the companies and the Swedish market as a whole, not least with regard to smaller companies. However, it is natural to expect these smaller companies to explain non-compliance with certain rules to a greater extent.

### Evaluation of incentive schemes

For the past few years Första AP-fonden has urged Swedish company boards to evaluate the effects of incentive schemes from a shareholder perspective. For the shareholders and for the boards, which are responsible for ensuring that the companies' compensation systems are properly structured, it is vital that incentive schemes are well adapted to the individual company's situation and designed to produce the best possible results for the company and its owners.

The evaluation should answer the question of whether the shareholders, who resolve on these schemes at shareholder meetings and who foot the bill for them, get value for money. Are the incentives effective in enabling the companies to recruit personnel? Is it easier for a company with an incentive scheme to retain competent staff? Do the managements of companies with such schemes work more efficiently and in a manner that benefits the shareholders? Första AP-fonden is aware that incentive schemes are difficult to assess, but because they involve such significant values the Fund nonetheless

emphasises the importance of evaluations. A few companies have undertaken very ambitious evaluations that can serve as a model for others. Over time, more companies will carry out evaluations and the quality of these will increase.

### Capital structure

During the previous market upswing, many shareholders felt strongly that companies should adjust their capital structure and distribute more money to the shareholders. In current economic crisis the focus has shifted and the drawbacks of excessive debt have become clear. In its role as owner, the Fund has taken part in discussions with the companies about their capital structure. However, it should be pointed out that the boards are best able to determine the best capital structure for their companies. The boards must then convince the shareholders – which have the formal decision-making authority – of the need to make changes, and in such case determine how they will be accomplished. As the preferred alternative, Första AP-fonden advocates the use of general methods such as preferential rights issues, extra dividends and redemption programs to adjust the capital structure. A buy-back of the company's own shares is one of several available ways of achieving this and can be used when no other means are appropriate.

### Participation in general shareholder meetings in 2008

Alfa Laval	SAS
Assa Abloy	SCA
Atlas Copco	Scania
Autoliv	SEB
Carnegie	Securitas (2)
Electrolux	SHB
Ericsson	Skanska
Getinge (3)	SKF
Hennes & Mauritz	SSAB
Husqvarna	Swedbank (2)
Investor	Swedish Match
Kinnevik	Tele2
Lundin Petroleum	TeliaSonera
MTG	TradeDoubler (2)
Nordea Bank	Volvo
SAAB	Vostok Gas
Sandvik	

### **Ethical and environmental compliance**

The Ethical Council was established in 2007 and its activities progressed very well in 2008. Early in the year, the Ethical Council decided to raise its level of commitment in the companies with which it is engaged in dialogue. The goal was for a member of the Ethical Council to visit each such company in person as a means for increasing the opportunities to bring about a change. This proved to be a sound decision and enabled the Ethical Council to exert a greater influence. Among other things, the French company Sodexo was removed from the Ethical Council's dialogue list after taking the action requested by the Council. For more details, see the Ethical Council's annual report to be published at the end of the first quarter of 2009.

In the past year considerable time was also devoted to analyzing how the new Convention on Cluster Munitions, which has been signed by Sweden, will affect the Fund's management. The analysis resulted in a decision by the Board to exclude nine companies from the Fund's investment universe on the grounds that their operations were not consistent with the convention (see fact box).

#### **Companies excluded from Första AP-fonden's investment universe**

- Alliant Techsystems (cluster munitions)
- GenCorp (cluster munitions)
- General Dynamics (cluster munitions)
- Hanwha Corporation (cluster munitions)
- L-3 Communications (cluster munitions)
- Lockheed Martin (cluster munitions)
- Poongsan (cluster munitions)
- Raytheon (cluster munitions)
- Singapore Technologies (antipersonnel landmines)
- Textron (cluster munitions)

Furthermore, the Fund has voted on some twenty shareholder resolutions in foreign companies, some linked to issues touching on their dialogues with the Ethical Council and others related to the companies' environmental reporting. The ambition for 2009 is to be a more active owner outside Sweden. Among other things, the Fund will exercise its votes in more foreign shareholder meetings and then evaluate the results.

Dialogue has also been initiated with a handful of Swedish companies, both for proactive purposes and as a reaction to specific events. For example, the Fund visited a few of Assa Abloy's factories and subcontractors in Sweden and the Czech Republic together with other investors and continued its ongoing dialogue with the company regarding its Corporate Social Responsibility (CSR) efforts. Assa Abloy was also contacted when the Fund became aware that the company had a production unit on the West Bank, a facility that the company later decided to move.

As in earlier years, the Fund participated in two international initiatives, EITI (Extractive Industries Transparency Initiative, for greater transparency in expenditure and revenue streams between all stakeholders in contracts related to exploitation of natural resources) and CDP (Carbon Disclosure Project), for greater transparency in corporate disclosure of information on greenhouse gas Emissions). The Fund signed up to the UN's Principles for Responsible

Investment (UN PRI) in 2007 and took part in the annual conference during 2008 in order to exchange experiences.

## Accounting and valuation principles

The Swedish National Pension Funds Act (2000:192) states that the annual report shall be prepared in compliance with generally accepted accounting principles, whereby the assets in which the Fund's invests shall be stated at fair market value. Against this background, the First to Fourth AP funds (AP1, AP2, AP3, AP4) have developed joint accounting and valuation principles which have been applied and are summarized below.

### Changed classification

As of 1 January 2008, management fees for unlisted assets and participations, for which a refund is permitted before dividends and which are deemed probable, are recognized as part of historical cost of the respective asset. Previously, this item was recognized in "other assets" in the balance sheet. The comparative figures have been restated.

### Trade date accounting

Transactions in securities and derivative instruments in the money, bond, equity and foreign exchange markets are recognized in the balance sheet on the trade date, i.e. the date on which the rights and risks of ownership are substantially transferred between the parties. The receivable from or liability to the counterparty between the transaction date and settlement date is recognized in "other assets" or "other liabilities", respectively. In cases where netting is permitted, it is applied.

Other transactions, particularly those pertaining to unlisted assets, are recognized in the balance sheet on the settlement date, in accordance with market practice.

### Foreign currency

Assets and liabilities held in foreign currencies are stated at the closing day rate of exchange. Changes in the value of foreign currency assets and liabilities are divided between those attributable to the change in the value of the asset or liability and those caused by fluctuations in the exchange rate. Both realized and unrealized value gains/losses arising on exchange rate fluctuations are recognized in the income statement within net foreign exchange gains/losses.

### Shares and participations

Listed shares and participations are stated at fair value. The fair value of shares and participations traded on an active market is normally established as the quoted bid rate in local currency on the last trading day of the year, and otherwise as the latest available bid rate.

Unlisted fund participations are stated at Första AP-fonden's share of the valuation made by the fund manager based on the Fund's total holdings. This is normally updated when a valuation has been obtained and adjusted for any cash flows up to the closing day of the period. The valuation complies with EVCA's or similar valuation principles and should be primarily calculated on the basis of arm's length transactions, although other valuation methods may be used. The general rule is that prudence and consistency should be exercised in reporting of holdings at fair value.

### Bonds and other fixed income assets

Bonds and other fixed income assets are stated at fair value. The fair value of shares and participations traded on an active market is normally established as the quoted bid rate in local currency on the last trading day of the year, and otherwise as the bid rate on the preceding day. For an instrument that is not quoted in an active market and reliable market prices are available, fair value is established by using a generally accepted valuation technique based on discounted cash flow analysis with the help of yield curves.

Net gains/losses comprise the difference between the average amortized cost and net selling price/fair value. Amortized cost is the net present value of future payments, where the discount rate is the effective rate of interest on the acquisition date. This means that acquired premiums and discounts are accrued over the remaining maturity or until the next interest conversion date. These premiums and discounts are recognized in interest income.

### Repo transactions

In a true repo (repurchase) transaction, the asset remains in the balance sheet and the proceeds received are recognized as a liability. The divested security is reported in the balance sheet as a pledged asset under memorandum items. The cash value difference between spot and forward legs accrues over the maturity period and is recognized in interest.

### Derivative instruments

Derivatives are stated at fair value based on quoted market prices at the end of the year. For an instrument that is not traded in an active market, fair value is established by using a generally accepted valuation technique based solely on observable market inputs.

Positions with a positive fair value are taken up as assets in the balance sheet, while positions with a negative fair value are taken up as liabilities. The cash value difference between spot and forward legs accrues over the maturity period and is recognized in interest.

#### **Securities lending**

Securities on loan are recognised in the balance sheet at fair value. Collateral deposited for securities on loan consists of securities and cash. The value of securities on loan, and collateral for these, is recognized under memorandum items in the balance sheet. Compensation for securities on loan is recognized in interest income. In cases where Första AP-fonden has a right of disposal over the received collateral, this is recognized in the balance sheet as an asset and a corresponding liability.

#### **Items recognized directly in net assets**

Contributions from and disbursements to the national pension scheme, as well as transfers from the special management funds owned jointly by Första AP-fonden (AP1) and Fjärde AP-fonden (AP4), are recognized directly in the Fund's net assets.

#### **Performance-based fees to external managers**

Performance-based fees, which are payable only if a manager delivers returns over a predetermined level, are recognized in net investment income for the respective asset class in the income statement.

#### **Commission costs**

Commission costs are recognized in the income statement as deductions from operating income. They consist of external costs such as custodian fees and fixed fees to external managers. Brokerage commissions and fees paid for external management of unlisted assets, for which a refund is permitted before dividends and which are deemed probable, are recognized as part of the historical cost for the respective asset class in the balance sheet.

#### **Operating expenses**

All administrative expenses, excluding brokerage fees, fees to external managers and custodian bank fees, are recognised in operating expenses.

Investments in equipment and software developed or acquired by the Fund are normally expensed as incurred.

As a non-commercial enterprise, Första AP-fonden is exempt from value added tax (VAT), which means that the Fund does not have the right to VAT restitution. Paid VAT is included in the respective cost item.

#### **Income taxes**

The AP funds are exempt from all income tax on domestic investments in Sweden. For investments outside Sweden, the tax liability varies from country to country.

## Income statement

SEK million	Note	2008	2007
<b>Operating income</b>			
Net interest income	1	4,557	2,914
Dividends received		4,204	3,960
Net gains/losses, listed shares and participations	2	-66,890	2,616
Net gains/losses, unlisted shares and participations	3	-1,331	493
Net gains/losses, fixed income assets		937	727
Net gains/losses, derivatives		282	-388
Net gains/losses, foreign exchange movements		10,513	-338
Commission costs	4	-139	-153
<b>Total operating income</b>		<b>-47,867</b>	<b>9,831</b>
<b>Operating expenses</b>			
Personnel costs	5	-116	-102
Other administrative expenses	6	-64	-62
<b>Total operating expenses</b>		<b>-180</b>	<b>-164</b>
<b>Net investment income for the year</b>		<b>-48,047</b>	<b>9,667</b>

## Balance sheet

At the balance sheet date, 31 December, SEK million	Note	2008	2007
<b>Assets</b>			
Shares and participations, listed	7	89,252	125,641
Shares and participations, unlisted	8	4,913	4,278
Bonds and other fixed income assets	9	78,174	85,592
Derivatives	10	2,340	2,437
Cash and bank balances		1,295	856
Other assets	11	813	328
Prepaid expenses and accrued income	12	1,420	1,616
<b>Total assets</b>		<b>178,207</b>	<b>220,748</b>
<b>Liabilities</b>			
Derivatives	10	5,460	1,601
Other liabilities	13	987	285
Accrued expenses and deferred income	14	133	71
<b>Total liabilities</b>		<b>6,580</b>	<b>1,957</b>
<b>Net assets</b>			
Net assets	15		
Opening net assets		218,791	207,105
Net inflow from the pension system		831	991
Transferred from liquidation fund/special management fund		52	1,028
<b>Net investment income for the year</b>		<b>-48,047</b>	<b>9,667</b>
<b>Total net assets</b>		<b>171,627</b>	<b>218,791</b>
<b>Total net assets and liabilities</b>		<b>178,207</b>	<b>220,748</b>
<b>Memorandum items</b>			
Pledges and other equivalent collateral to secure own liabilities		none	none
Other pledged assets	16	5,941	38,485
Commitments	17	8,575	3,114

## Notes

### Note 1 - Net interest income

SEK million	2008	2007
<b>Interest income</b>		
Bonds and other fixed income securities	4,036	3,827
Derivatives	1,575	931
Other interest income	109	355
<b>Total interest income</b>	<b>5,720</b>	<b>5,113</b>
<b>Interest expense</b>		
Derivatives	-1,158	-2,166
Other interest expense	-5	-33
<b>Total interest expense</b>	<b>-1,163</b>	<b>-2,199</b>
<b>Net interest income</b>	<b>4,557</b>	<b>2,914</b>

### Note 2 - Net gains/losses, listed shares and participations

SEK million	2008	2007
Investment gains/losses	-66,773	2,698
Less brokerage commissions	-117	-82
<b>Net gain, listed shares and participations</b>	<b>-66,890</b>	<b>2,616</b>

### Note 3 - Net gains/losses, unlisted shares and participations

SEK million	2008	2007
Capital gains/losses	11	29
Unrealized changes in value	-1,342	464
<b>Net gains, unlisted shares and participations</b>	<b>-1,331</b>	<b>493</b>

### Note 4 - Commission costs

SEK million	2008	2007
External management fees, listed assets	-127	-141
External management fees, unlisted assets	-4	-5
Other commission costs, incl. fees for custody services	-8	-7
<b>Total commission costs</b>	<b>-139</b>	<b>-153</b>

Commission costs do not include performance-based fees. These amounted to SEK 85 million (28) in 2008, and are deducted from net investment income for the asset under management.

## Note 5 - Personnel costs

Number of employees	2008	of whom, women	2007	of whom, women
Average number of employees	65	17,4	63	17,5
Number of employees at 31 December	68	18	64	18
Number of persons on executive management team at 31 December	7	3	6	2

Personnel costs, SEK thousands	2008	2007
<b>Salaries and remuneration<sup>1</sup></b>		
Board Chairman	-100	-100
Managing Director	-3,467	-2,886
Board of Directors, excl. Chairman (8 persons)	-426	-379
Executive Management team excl. Managing Director (6 persons at end of 2008)	-8,024	-7,580
Other employees	-52,088	-46,195
<b>Total salaries and remuneration</b>	<b>-64,155</b>	<b>-57,140</b>
Remuneration to Board members other than directors' fees	-45	-25
<b>Variable remuneration<sup>1</sup></b>		
Managing Director	-	-
Executive Management team excl. Managing Director (6 persons at end of 2008)	-	-
Other employees	-1,602	-
<b>Total variable remuneration</b>	<b>-1,602</b>	<b>-</b>
<b>Pension costs<sup>2</sup></b>		
Managing Director	-964	-599
Executive Management team excl. Managing Director (6 persons at end of 2008)	-1,981	-2,475
Other employees	-17,881	-11,831
<b>Total pension costs</b>	<b>-20,826</b>	<b>-14,905</b>
<b>Social security expenses</b>		
Board Chairman	-32	-32
Managing Director	-1,135	-1,083
Board of Directors, excl. Chairman (8 persons)	-153	-131
Executive Management team excl. Managing Director (6 persons at end of 2008)	-2,565	-3,012
Other employees	-17,533	-17,831
<b>Total social security expenses</b>	<b>-21,418</b>	<b>-22,089</b>
Other personnel costs	-8,448	-7,655
<b>Total personnel costs</b>	<b>-116,494</b>	<b>-101,814</b>

<sup>1</sup> In 2008 the Fund introduced an incentive plan according to a performance-based system where variable remuneration is payable on the attainment of fixed and predetermined goals, of which the majority are earnings-based. In certain cases, the earnings-based goals have been supplemented with goals for the individual employees or small groups of employees. The maximum potential amount payable to each employee is equal to 2 monthly salaries, where the payment is reduced by half if the Fund's net investment income is negative. All employees aside from the Fund's Risk Management unit and the Managing Director are covered by the plan. Employees belonging to the Fund's executive management team have voluntarily waived their right to variable remuneration for 2008. For other employees (around 30) who have met their goals, the amount of variable remuneration will be reduced by half to the equivalent of one monthly salary. A total provision of SEK 1.6 million (excluding social security expenses) has been made for payment of variable remuneration.

<sup>2</sup> The Managing Director's salary is determined by the Board of Directors. In the employment contract of the Managing Director, the Fund undertakes to pay a pension premium equal to 30%. For that portion of salary granting entitlement under the national pension scheme, the pension premium is reduced to 11.5%. No agreements regarding severance pay or early retirement exist. The members of the Fund's executive management team are covered by the applicable pension agreements for bank employees at any given time. No agreements regarding severance pay exist for these individuals.

### Sickness absence:

Sickness absence in Första AP-fonden during 2008 was 1.33% calculated as total sickness absence in relation to total normal working hours for all employees. None of the Fund's employees had a sickness absence of longer than 60 days. Sickness absence in 2008 was 0% for employees up to 29 years of age, 1.29% for employees 30-49 years of age and 1.54% for employees 50 years of age and older. Sickness absence was 2.7% among women and 0.8% among men.

## Note 6 - Other administrative expenses

SEK thousands	2008	2007
Costs for premises	-13,490	-12,406
Purchased services	-8,792	-9,983
Information and data expenses	-32,627	-32,344
Other administrative expenses	-8,665	-7,234
<b>Total other administrative expenses</b>	<b>-63,574</b>	<b>-61,966</b>

The stated amount for purchased services includes remuneration to auditors according to the following breakdown:

KPMG		
Audit assignments	-848	-784
Non-audit assignments	-	-
ÖhrlingsPricewaterhouseCoopers		
Audit assignments	-145	-227
Non-audit assignments	-	-
Ernst & Young		
Audit assignments	-563	
Non-audit assignments	-528	
<b>Total</b>	<b>-2,084</b>	<b>-1,011</b>

## Note 7 - Shares and participations, listed

At the balance sheet date, 31 December, SEK million

Shares and participations, listed	2008		2007	
	Historical cost	Fair value	Historical cost	Fair value
Equities, Swedish	25,384	17,518	24,330	25,670
Equities, non-Swedish	101,240	71,734	82,744	99,971
<b>Listed shares and participations</b>	<b>126,624</b>	<b>89,252</b>	<b>107,074</b>	<b>125,641</b>

Five largest Swedish equity holdings, 31 December 2008

Name	Number	Fair value
Hennes & Mauritz B	6,543,846	1,999
TeliaSonera	44,433,762	1,728
Ericsson A and B	28,197,229	1,659
Nordea	23,608,521	1,291
Volvo A and B	20,319,005	877
<b>Summa</b>		<b>7,554</b>

Five largest non-Swedish equity holdings, 31 December 2008

Name	Number	Fair value
Exxon Mobil Corp	1,905,345	1,205
AstraZeneca	3,656,316	1,135
Procter & Gamble Co	1,081,038	530
General Electric	3,850,164	494
AT & T Inc	2,161,711	489
<b>Total</b>		<b>3,841</b>

A complete register of all listed holdings at 31 December 2008 can be ordered from Första AP-fonden by calling +46 (0)8 566 202 70 or via the website [www.ap1.se](http://www.ap1.se).

## Note 8 - Shares and participations, unlisted

Shares and participations, listed				
Associated companies	Number	% of capital	% of votes	Historical cost
AP Fastigheter Holding AB (556650-4196)	1,000,000	25%	25%	1,221
Other unlisted holdings, non-Swedish shares and participations				
Cevian Capital, L.P.				39
Cevian Capital II, Ltd.				369
InnKap 3 Partners Sweden KB				48
InnKap 4 Partners L.P.				35
First Private Equity Investments, L.P. Inc. <sup>1</sup>				682
WP North America Private Equity, L.P. <sup>2</sup>				637
First Stockholm Global Private Equity L.P. <sup>3</sup>				199
Second Stockholm Global Private Equity L.P. <sup>4</sup>				314
<b>Total historical cost, unlisted shares and participations</b>				<b>2,323</b>
<b>Total fair value, unlisted shares and participations:</b>				<b>4,913</b>

<sup>1</sup> Managed by LGT Capital Partners Limited

<sup>2</sup> Managed by WP Global Partners Inc.

<sup>3</sup> Managed by Hamilton Lane Advisors LLC.

<sup>4</sup> Managed by Hamilton Lane Advisors LLC.

## Note 9 - Bonds and other fixed income assets

At the balance sheet date, 31 December, SEK million	2008		2007	
	Historical cost	Fair value	Historical cost	Fair value
<b>Breakdown by type of issuer</b>				
Swedish state	3,603	3,856	13,623	14,627
Swedish municipalities	-	-	-	-
Swedish mortgage institutions	16,731	17,215	14,360	14,137
Other Swedish companies				
Financial companies	6,787	6,867	958	941
Non-financial companies	6,034	6,525	882	861
Foreign states	21,816	25,203	42,218	40,526
Other foreign issuers <sup>1</sup>	16,650	18,508	15,552	14,500
<b>Bonds and other fixed income assets</b>	<b>71,621</b>	<b>78,174</b>	<b>87,593</b>	<b>85,592</b>
<b>Breakdown by type of instrument</b>				
Index-linked bonds	17,225	19,236	20,054	20,912
Other bonds	49,257	53,799	67,256	64,398
Treasury bills	-	-	-	-
Commercial paper	-	-	-	-
Other instrument	5,139	5,139	283	282
<b>Total bonds and other fixed income assets</b>	<b>71,621</b>	<b>78,174</b>	<b>87,593</b>	<b>85,592</b>

<sup>1</sup> 17 bond loans are measured according to a yield curve plus spread approach, which uses a certain degree of subjective valuation. The fair value of these loans at 31 December 2008 was approximately SEK 7.3 billion.

## Note 10 - Derivatives

At the balance sheet date, 31 December, SEK million

	2008		2007	
Derivatives with positive fair values	Notional amount	Fair value	Notional amount	Fair value
Currency futures	26,453	2,293	63,802	2,342
Currency options	300	17	-	-
Interest futures	28,066	-	41,656	-
Equity futures	7,602	30	3,953	95
Equity options	-	-	-	-
<b>Total derivative instruments with positive fair values</b>	<b>62,121</b>	<b>2,340</b>	<b>109,411</b>	<b>2,437</b>
of which, cleared	35,100		44,421	-

Derivatives with negative fair values	Notional amount	Fair value	Notional amount	Fair value
Currency futures	51,640	5,448	45,151	1,421
Currency options	212	10	-	-
Interest futures	19,587	-	34,254	-
Equity futures	3,214	2	4,008	180
Equity options	-	-	-	-
<b>Total derivatives with negative fair values</b>	<b>74,441</b>	<b>5,460</b>	<b>83,413</b>	<b>1,601</b>
of which, cleared	22,600		36,259	-

All open derivative positions have been valued on the basis of observable data, i.e. quoted market prices for the underlying assets.

## Note 11 - Other assets

At the balance sheet date, 31 December  
SEK million

	2008	2007
Incoming payments, unsettled transactions	788	313
Receivables from foreign tax authorities	20	13
Other assets	5	2
<b>Total other assets</b>	<b>813</b>	<b>328</b>

## Note 12 - Prepaid expenses and accrued income

At the balance sheet date, 31 December  
SEK million

	2008	2007
Accrued interest income	1,290	1,430
Accrued dividends	124	172
Other prepaid expenses and accrued income	6	14
<b>Total prepaid expenses and accrued income</b>	<b>1,420</b>	<b>1,616</b>

## Note 13 - Other liabilities

At the balance sheet date, 31 December  
SEK million

	2008	2007
Outgoing payments, unsettled transactions	700	269
Other liabilities	287	16
<b>Total other liabilities</b>	<b>987</b>	<b>285</b>

## Note 14 - Accrued expenses and deferred income

At the balance sheet date  
31 December, SEK million

	2008	2007
Accrued performance-based fees	85	28
Accrued management fees	32	39
Other accrued expenses	16	4
<b>Total accrued expenses and deferred income</b>	<b>133</b>	<b>71</b>

## Note 15 - Net assets

At the balance sheet date  
31 December, SEK million

	2008	2007
<b>Opening net assets</b>	<b>218,791</b>	<b>207,105</b>
Net inflow from the pension system:		
Incoming pension contributions	50,783	47,603
Outgoing pension disbursements	-49,796	-46,405
Transfer of pension entitlements to EU	-6	-8
Adjustment of pension entitlements	2	1
Outgoing administrative contribution to Swedish Social Insurance Agency	-152	-200
<b>Total net inflow to the pension system</b>	<b>831</b>	<b>991</b>
Transferred from Första AP-fonden's Liquidation Fund		961
Transferred from Fjärde AP-fonden's (AP4) Special Management Fund	52	67
<b>Total transferred from liquidation/special management funds</b>	<b>52</b>	<b>1,028</b>
<b>Net investment income for the year</b>	<b>-48,047</b>	<b>9,667</b>
Closing net assets	171,627	218,791
Assets under management, Fjärde AP-fonden's (AP4) Special Management Fund	2	305

## Note 16 - Other pledged assets

At the balance sheet date  
31 December, SEK million

	2008	2007
Securities on loan against other collateral <sup>1</sup>	3,585	36,946
Collateral for futures transactions	2,356	1,539
<b>Other pledged assets</b>	<b>5,941</b>	<b>38,485</b>

<sup>1</sup> Collateral received for securities on loan, SEK 3,882 million.

## Note 17 - Commitments

At the balance sheet date, 31 December  
SEK million

	2008	2007
Future payment commitments:		
Investment commitments, unlisted holdings	8,575	3,114
<b>Total commitments</b>	<b>8,575</b>	<b>3,114</b>

## Statement of assurance

We hereby give our assurance that to the best of our knowledge, the annual accounts have been prepared in conformity with generally accepted accounting principles in Sweden and with the joint accounting and valuation principles developed by the AP funds, that

the information therein gives a true and fair picture of the actual conditions, and that nothing of material significance has been omitted that could affect the picture of the Fund created by this annual report.

Stockholm, 18 February 2009

Anna Ekström

Anna Hedborg  
*Chairman*

Katja Elväng

Anders Knape

Christina Lindenius

Tor Marthin

Per Nordberg

Erland Olauson

Håkan Tidlund  
*Deputy Chairman*

Johan Magnusson  
*Managing Director*

## Audit report

We have audited the annual accounts, the accounting records and the administration of the board of directors of Första AP-fonden (CIN 802005-7538) for the financial year 2008. The Fund's legal annual report is presented in this document in the section "Operations and results in 2008 – Directors' report". The board of directors is responsible for these accounts and the administration of the Fund as well as for the application of the Swedish National Pensions Act when preparing the annual accounts. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and

significant estimates made by the board of directors when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Swedish National Pensions Act and give a true and fair view of the Fund's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts.

In performing this audit, we have found no reason for qualifications regarding the annual accounts, the income statements and balance sheets included therein, the accounting records or the inventory of assets, or otherwise regarding the Fund's management by the board of directors.

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

Stockholm, 19 February 2009

**Anna Peyron**

*Authorized Public Accountant*

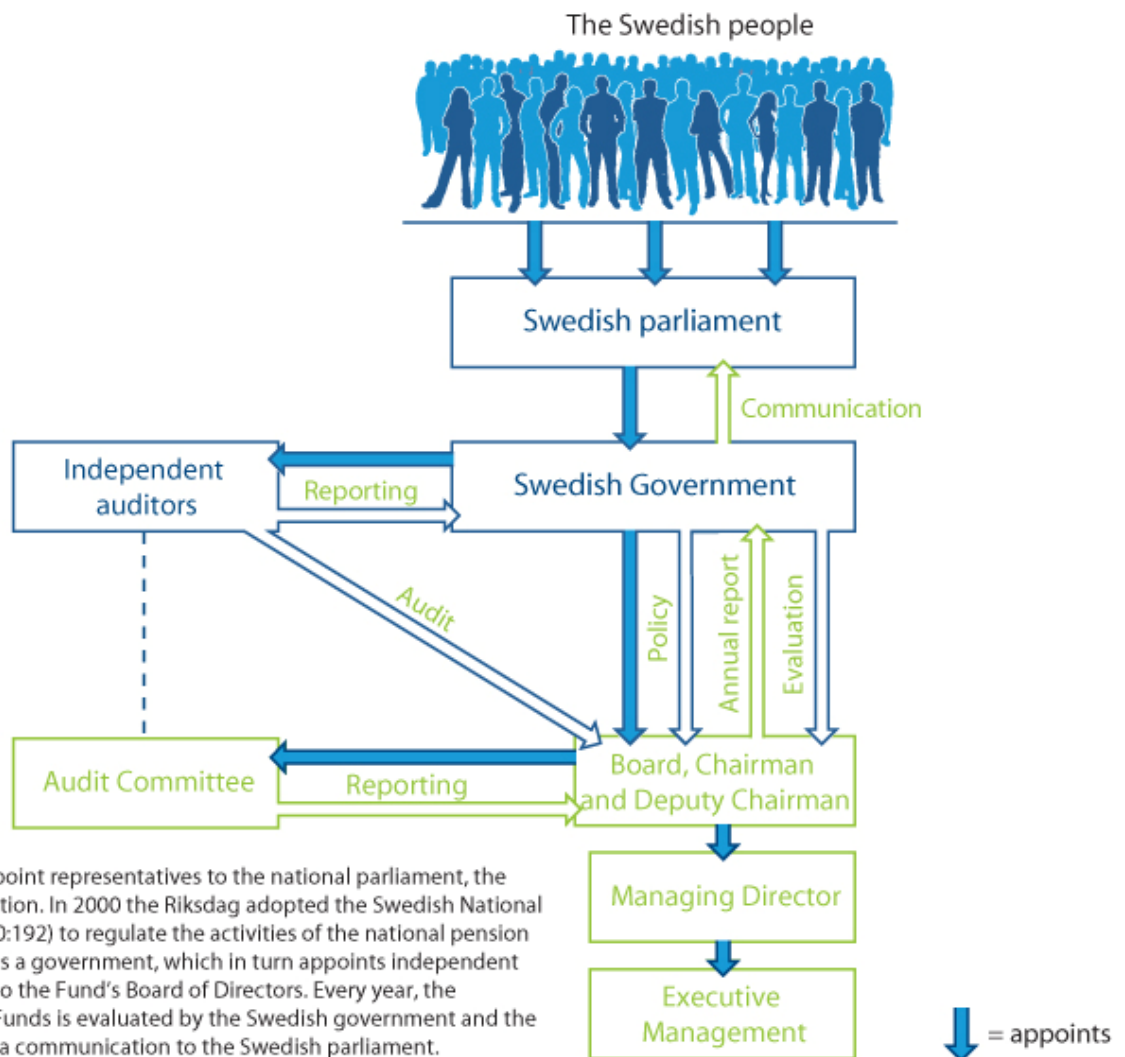
Appointed by the  
Swedish Government

**Lars Bonnevier**

*Authorized Public Accountant*

Appointed by the  
Swedish Government

# Fund management report



The Swedish people appoint representatives to the national parliament, the Riksdag, by general election. In 2000 the Riksdag adopted the Swedish National Pension Funds Act (2000:192) to regulate the activities of the national pension funds. The Riksdag forms a government, which in turn appoints independent auditors and members to the Fund's Board of Directors. Every year, the performance of the AP Funds is evaluated by the Swedish government and the results are presented in a communication to the Swedish parliament.

Första AP-fonden issues a fund management report and thereby applies the recommendations in the Swedish Code of Corporate Governance as far as applicable with respect to the Fund's organizational structure. However, not all rules in the Code are applicable, since Första AP-fonden is a government entity (for more details see the Fund's website [www.ap1.se](http://www.ap1.se)).

The AP funds are more independent than most other government entities, since their operations are regulated only by law and not by directive. The funds' board of directors and independent auditors are appointed by the Swedish Government.

Every year, the performance and management of the AP funds is evaluated by order of the Swedish Government and the results are presented in a communication to the Swedish Parliament. The com-

munication for the financial year 2005 (2005/06:210) was the first to be based on the government's new policy for governance and evaluation of the AP funds.

### Board of Directors

Första AP-fonden's Board of Directors consists of nine members who are appointed by the Swedish Government. The Government also appoints the Chairman and Deputy Chairman. Of the other members, two are nominated by the employer organizations and two by the employee organizations. The Fund's Managing Director is not a member of the Board.

All members of the Board of Directors were re-elected in 2008. The members have been appointed to serve until the income statement and balance sheet for 2008 have been adopted. When a

new member is elected, the Fund arranges a special review of Första AP-fonden's operations.

The Government determines the amount of fees and remuneration to be paid to the members of the Board. Remuneration for the full year amounts to SEK 100,000 for the Chairman, SEK 75,000 for the Deputy Chairman and SEK 50,000 each for the other Board members. The members of the Fund's audit receive additional annual compensation of SEK 15,000 each.

#### *Procedural plan*

The Board is responsible for overseeing the Fund's organization and management of the investment assets. The work of the Board is regulated by a procedural plan that is adopted yearly.

Every year, the Board establishes the Fund's operational plan, goals and guidelines for investment operations, budget, risk management plan and ownership policy. The Board also appoints a Managing Director to whom it delegates responsibility for the Fund's day-to-day activities.

The Board of Directors is required to hold at least four meetings per year. The Fund's external auditors report to the Board at least once every year.

#### *Committees*

From among its own members the Board appoints two committees, an audit committee and a remuneration committee.

The audit committee assists the Board in matters related to internal control, operating risks, financial reporting and auditing. However, decision-making authority and responsibility in these areas is held by the Fund's entire Board of Directors. In 2008 the committee consisted of Deputy Chairman Håkan Tidlund together with Board members Katja Elväng and Per Nordberg. The committee met on three occasions during the year.

The remuneration committee assists the Board in matters related to remuneration. In 2008 the committee consisted of Board Chairman Anna Hedborg and Board members Anna Ekström and Tor Marthin. The committee met on one occasion during the year.

#### *Work of the Board in 2008*

In 2008 the Board held seven minuted meetings. The meetings were attended by an average of eight Board members.

One of the Board's foremost tasks is to discuss and take a position on the composition of the strategic benchmark in relation to the Fund's commitments in the pension system. In 2008 the focus on this area was particularly strong due to a decision regarding the composition and implementation of a new ALM portfolio, both before and during the financial crisis. Aside from Board meetings, a special board seminar was held to discuss ALM-related issues.

Asset management and risk reporting have also been standing items on the agenda. At one meeting, the Board of Directors evaluated its work during the past year.

#### **Fund management**

The Board of Första AP-fonden has delegated responsibility for the Fund's day-to-day activities to the Managing Director. The Executive Management Team consists of the Managing Director, together with the Administrative Manager and the heads of External Management, Business Support and Risk Management, Strategic Asset Allocation, Foreign Exchange/Treasury, HR and Corporate Communications.

Remuneration to the Managing Director consists of basic salary and payment of defined contribution pension premiums equal to 30% of basic salary. For that portion of salary granting entitlement under the national pension scheme, the pension premium is reduced to 11.5%. Remuneration to the other senior executives is determined by the Managing Director and consists of basic salary and pension premiums according to the applicable agreements for bank employees. Första AP-fonden applies market-based salaries.

#### **Auditors**

Första AP-fonden's auditors are appointed by the Swedish Government. The current ordinance, shared by Anna Peyron and Lars Bonnevier, both from Ernst & Young, commenced on 18 June 2008 and extends until the Fund's income statement and balance sheet for 2008 have been adopted. Anna Peyron has been appointed by the Government to coordinate the auditing procedures of the AP funds. In addition to his appointment as auditor of Första AP-fonden, Lars Bonnevier has been appointed together with Anna Peyron as auditor of the Third, Fourth and Seventh AP funds (AP3, AP4 and AP7).

The auditors present their observations from the audit directly to the Board in the form of a written audit report and an oral presentation.

The auditors participate in at least one Board meeting per year and meet with the Board Chairman or audit committee as needed. The auditors also submit a yearly report to the Swedish Ministry of Finance.

The auditors' duties include examining the Fund's operating activities, the administration of the Fund, the annual accounts and the accounting records, and expressing an opinion on the Fund's annual accounts and asset management based on their audit. Their duties also include assessment of Första AP-fonden's application of the accounting and valuation standards established for the AP funds and whether the overall presentation of information in the financial statements provides a true and fair view of the Fund's financial position and results.

	Appointed by recommendation of	Attendance at Board meetings	Fee	Audit Committee	Attendance in Audit Committee	Remuneration Committee	Attendance in Remuneration Committee	Fees for committee work
Anna Hedborg, Chairman	-	7/7	100,000		-	Chairman	1/1	
Håkan Tidlund, Deputy Chairman	-	6/7	75,000	Chairman	3/3	-		15,000
Anna Ekström	Employer organization (SACO)	7/7	50,000			Member	1/1	
Katja Elväng	-	6/7	50,000	Member	3/3	-		15,000
Anders Knape	Employer organization (Sveriges Kommuner och Landsting)	6/7	50,000		-	-		
Christina Lindenius	-	5/7	50,000		-	-		
Tor Marthin	-	5/7	50,000			Member	1/1	
Per Nordberg	Employer organization (Svenskt Näringsliv)	6/7	50,000	Member	3/3	-		15,000
Erland Olauson	Employee organization (LO)	5/7	50,000		-	-		

## Report on internal control and risk management

According to the Swedish National Pension Funds Act (2000:192), the Board of Directors is responsible for the Fund's organization and management of the Fund's assets. Part of this responsibility is to ensure the high quality of the Fund's internal control, which is also consistent with the duties of the Board pursuant to the Swedish Companies Act and the Swedish Code of Corporate Governance.

This report has been prepared in compliance with the Swedish Code of Corporate Governance, articles 3.7.2 and 3.7.3, and is thereby limited to internal control over financial reporting. Reporting on internal control is structured according to the division in COSO, the most well established international framework for internal control. This report is not part of the formal annual report and has not been examined by the company's auditors. In this context, financial reporting refers to the Board's approved external reports, which are published in connection with the annual and semi-annual accounts.

Monitoring, analysis and reporting of internal control are handled by two functions within the Fund. The Risk Management function is primarily concerned with financial risks, while the Compliance Officer focuses mainly on operating risks and compliance with norms and rules. The work of both functions is carried out independently from the Fund's other activities, and both report directly to the Managing Director.

### Control environment – fund management

The responsibilities of the Board of Directors are regulated by the Swedish National Pension Funds Act. Every year, the Board adopts a normative document in which the roles and responsibilities of the Board and the Managing Director are described. This document contains a number of policies, a risk management plan and a reporting plan, and defines the respective areas of responsibility and authority.

There is a well ingrained risk culture in the Fund, which is partly due to the fact that successful asset management relies on the ability to identify, analyze and manage risks on the basis of a risk mandate.

Two central aspects of this culture are transparent reporting of business activities and a duality principle for processing of business transactions. This means, among other things, that the entire organization can monitor business activities via an enterprise-wide system and that these business transactions require approval from both the Fund's financial administration and investment units.

Furthermore, there are established and documented routines for valuation of financial instruments and well-defined structures for decision-making in day-to-day operations.

For preventive purposes, the Fund's risk management activities are focused on avoiding undesired financial risks and minimizing operating risks. This work, combined with a strong risk culture, promotes a high level of understanding regarding the need for internal risk control within the Fund.

### Risk assessment

To ensure effective financial reporting and identification of operating risks, a recurring review of the Fund's processes and documentation is conducted at the request of the Board.

The results of this review are reported to the Board. A central component of this review is the account closing process, which describes valuation, reconciliation and control of securities in connection with closing of the accounts. The account closing process serves as basis for the Fund's external financial reporting.

Aside from a general evaluation of processes, the Managing Director and Executive Management Team together establish the areas to be prioritized and subjected to special review on a yearly basis. The units within the organization that are affected by the review participate actively in the analysis, which is based on a self-assessment method. This work results in an evaluation of identified risks and proposed measures. The Fund's Compliance Officer oversees the analysis process and ensures that the Fund's corrective measures are implemented.

### Control structure and activities

The financial information is analyzed and examined by the Fund's financial administration, control and risk management functions, which verify the performed internal controls and issue opinions on the Fund's management to the Managing Director. Control activities are conducted with the support of the Fund's portfolio management system (Dimension) and risk system (Wilshire).

The control function is largely built into these systems, which also produce data for various risk analyses. This creates an effective structure for both prevention and identification of undesired risks. Risks are identified through the process described above, with a focus on those that are considered significant from a Fund perspective. This dynamic handling of prioritized risks leads to continuous development of the Fund's internal risk management.

The risk management function is responsible for monitoring financial risks in the Fund issues guidelines for internal control routines as well as monitoring compliance and the outcome of these. The Fund's Compliance Officer monitors the operating risks,

oversees compliance with the Fund's policies and normative documents and coordinates the yearly review of operating risks.

The process description and approved control and monitoring routines serve as normative documents for the Fund's Risk Management function and Compliance Officer.

#### **Information and communication**

The Board is regularly informed about the Fund's financial position and investment results. The Board is provided with an income and return report every month and a complete income statement and balance sheet on a quarterly basis. Reports on the Fund's financial position and risk-taking are also presented at each regular Board meeting.

The financial information provided by the Managing Director to the Board follows the Fund's account closing process, a procedure deemed to ensure the quality of the Fund's external financial reporting. External reports are published in connection with the annual and semi-annual accounts.

All policies and instructions with relevance for internal control are communicated clearly and made accessible to all employees on the Fund's intranet. This transparency also extends to continuous internal risk and return reports, which are also made available on the Fund's intranet.

#### **Monitoring**

Risk management and internal control are standing items on the agenda of all of the Fund's regular board meetings, at which the Managing Director reports on the prioritized risk areas. The Board approves all financial reports prior to publication.

The Fund's Board of Directors is ultimately responsible for internal control. From among its members, the Board appoints an audit committee whose duties include matters related to internal control.

In response to unrest in the global financial markets during 2008, the Fund's Board of Directors and Audit Committee have specifically addressed the Fund's risk exposure to banks and other financial institutions. Aside from reviewing its limits on banks, a considerable emphasis has been placed on the Fund's positions in derivative instruments and securities liquidity.

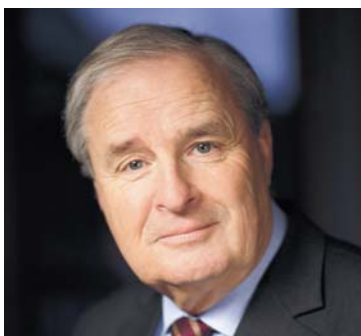
The Board has decided not to establish an internal audit function to monitor the quality of internal control, but has instead engaged independent engaged independent consultants for this work as needed. The Risk Management function and Compliance Officer report to the audit committee at its meetings. The independent auditors report regularly to the audit committee and to the Board in connection with the annual accounts.

## Board of Directors



### **Anna Hedborg, born in 1944**

Chairman. Appointed to the Board in 2000. M.B.A. Director General of the Ministry of Health and Social Affairs.



### **Håkan Tidlund, born in 1943**

Deputy Chairman. Appointed to the Board in 2003. Chairman of the Board's Audit Committee. M.Sc.Econ. Chairman of the Swedish Film Institute. Board member of the Premium Pension Authority (PPM).



### **Anna Ekström, born in 1959**

Appointed to the Board in 2002. Appointed by recommendation of the Swedish Confederation of Professional Associations (SACO). LL.B. Chairman of SACO and AEA. Vice Chairman of the board of Uppsala University. Member of the boards of AMS and the Södermanland County Council.



### **Katja Elväng, born in 1947**

Appointed to the Board in 2007. M.B.A. Managing Director of Didaktus AB. Chairman of Swedcarrier AB and member of the boards of Didaktus AB and Milagro Business Partner AB.



### **Anders Knape, born in 1955**

Appointed to the Board in 2007. Appointed by recommendation of the Swedish Association of Local Authorities and Regions (SKL). Chairman of SKL and SKL Företag AB. Vice Chairman of KPA AB, the Congress of Local and Regional Authorities of Europe, the EU Committee of the Regions and CEMR. Member of the Karlstad Municipal Council. Co-opted to the Board of the Moderate Party.



### **Christina Lindenius, born in 1964**

Appointed to the Board in 2005. M.B.A. Managing Director of the Swedish Insurance Federation and the Swedish Insurance Employers' Association (FAO). Chairman of the Swedish Motor Insurers (TFF) and Svensk Försäkrings Administration AB. Member of the boards of the Swedish Social Insurance Agency, SNS Stockholm and Svenska ICC.



### **Tor Marthin, born in 1944**

Appointed to the Board in 2006. M.B.A. Chairman of Brandkontoret, AMF Pension Fondförvaltning AB and Folkhem Byggnads AB. Member of the board of the Swedish Institute for Financial Research and member of the Swedish Securities Council.



### **Per Nordberg, born in 1956**

Appointed to the Board in 2007. M.B.A. Appointed by recommendation of the Confederation of Swedish Enterprise (Svenskt Näringsliv). Vice President and CFO of Sandvik.



### **Erland Olason, born in 1949**

Appointed to the Board in 2006. LL.B. First Vice President and Negotiating Secretary of LO. Member of the boards of the AMF companies, the Swedish Labour Court and Aftonbladet. Chairman of the Museum of Work, LO-data AB, LO servicecenter AB and LO-Tidningen AB.

## Executive Management Team



### **Johan Magnusson, born in 1959**

Managing Director, employed in 2008.  
Previous positions at SEB Wealth Management and ABB Investment Management.  
Member of the board of Vasakronan.



### **Anders Rahmn, born in 1951**

Administrative Manager since 2000, employed in 1990 and member of the executive management team since 1998.  
M.B.A.  
Previous positions at the Swedish National Audit Office (SNAO) and the Ministry of Health and Social Affairs.



### **Nadine Viel Lamare, born in 1967**

Head of Corporate Communications since 2001, employed in 1992 and member of the executive management team since 2004.  
M.B.A., AFA, CEFA.  
Former Head of the Fund's Performance Measurement unit.



### **Cecilia Thomasson Blomquist, born in 1963**

Head of Head of Foreign Exchange and Treasury since 2000, employed in 1997 and member of the executive management team since 2006.  
M.B.A, AFA, CEFA.  
Previous positions at NCC Treasury AB and in the NCC group.



### **Rikard Kjörling, born in 1959**

Head of External Management, employed and member of the executive management team since 2004.  
M.B.A.  
Previous positions at SEB Asset Management, SEB Investment Management and Trygg-Hansa.



### **Marina Westman, born in 1960**

Head of Human Resources, employed in January 2008. Member of the executive management team since August 2008.  
Previous HR positions in the SEB group.



### **Andrejs Landsmanis, born in 1952**

Head Strategist, employed and member of the executive management team since December 2008.  
Previous positions at Länsförsäkringar and SEB Wealth Management.