

INTERIM REPORT

JANUARY – JUNE 2015



JANUARY – JUNE 2015 HIGHLIGHTS

- Net investment income for the first six months of 2015 was SEK 14.3 billion (16.6).
- Return after expenses was 5.0 per cent (6.5). Average return after expenses over ten years was thus 6.5 per cent.
- The Fund's target for real return after expenses of 4.0 per cent measured over rolling ten-year periods has been amply met, with real return during the ten-year period of 5.3 per cent.
- Net assets rose by SEK 11.9 billion to SEK 295.7 billion.
- During the period the Fund transferred SEK 2.4 billion (2.5) to the Swedish Pensions Agency.
- The Fund's administrative expenses were SEK 253 million (206), equalling 0.17 per cent (0.16) annualised of assets under management.
- An initial infrastructure investment was made through acquiring, as part of a consortium, electricity distribution company Ellevio from Fortum.
- An agreement was signed regarding forming the new real estate company Cityhold Office Partnership, with a holding valued at EUR 2.2 billion in total.

CONTENTS

Comments from the CEO	3
Fund performance in January–June 2015	5
Ten-year overview	8
Portfolio composition	9
Income statement	10
Balance sheet	11

Första AP-fonden is one of five funds that manage buffer capital in the Swedish national income pension system and are governed by the Swedish National Pension Funds Act (2000:192) – the AP funds. For other information regarding Första AP-fonden, please refer to the Fund's website, www.ap1.se. All values in this report are expressed in Swedish kronor. Millions of kronor are abbreviated as SEKm, and billions of kronor are abbreviated as SEKbn. Figures in brackets denote the corresponding figures for the period January–June 2014, unless otherwise indicated. The basis of tables and charts is the Fund's own data unless an alternative source is provided.

Accounting and valuation policies

This interim report was prepared in accordance with the accounting and valuation policies jointly prepared by the AP Funds. These are summarised in the 2014 annual report. The January – June report has not been reviewed by the Fund's auditors.

NEW INITIATIVES AND TARGETS MET BY A MARGIN



The first six months of 2015 featured moderate global growth, low interest rates and continuing stimulus from central banks, combined with great risk appetite among investors and equity markets that continued to surge. The global trend is clearly reflected in Första AP-fonden's portfolio, in which we see a solid performance for our equities and a weak one for bonds.

“As a buffer in the income pension system, it is important that we produce stable return over time”

Första AP-fonden's return for the first six months of 2015 was 5.0 per cent. At 30 June, net assets amounted to SEK 296 billion – an increase of SEK 12 billion since the turn of the year, following the transfer of SEK 2.4 billion to the Swedish pensions Agency. Since its inception in

2001, the Fund has generated return of SEK 168.2 billion and transferred SEK 13.1 billion to the Swedish Pensions Agency to cover the deficit in pension disbursements. It's a lot of money, and the result of what is – in an international perspective – a well-functioning pension system of which we are proud and of which we are an important part.

“Infrastructure is an important component in our long-term portfolio”

As a buffer in the income pension system, it is important that we produce stable return over time. Our target is for real return – that is, return excluding inflation – of 4.0 per cent over a rolling ten-year period. We have amply overshot this target, delivering real return of 5.3 per cent measured over the past ten years.

In the first six months of the year, some of our investments broke new ground. For example, we carried out an initial infrastructure investment through purchasing, as part of a consortium, electricity distribution company Ellevio from Fortum. Infrastructure is an important component of our long-term portfolio; cash flow is long and return relatively easy to predict. Also, the value is stable and does not track market fluctuations in the same way as many other investments do.

Carrying out direct investments alongside other long-term investors provides us with solid experience of the real estate sector. Cityhold, which we own together with Andra AP-fonden, is an example of this. Just after the close of the six-month period, we took the next step, forming Cityhold Office Partnership through the merger of Cityhold and the US pension fund TIAA-CREF's European real estate holding. The holding of the new company is a fine complement, valued at around EUR 2.2 billion and focusing on attractively located office properties in European cities. The new company, of which we own 25 per cent, also provides financial muscle to grow – a factor that we, the owners, have clearly stated will occur.

Our investment decisions, whatever the asset class, are based on a thorough analysis that takes all aspects into account, from financial facts to human rights. Sustainable long-term value is best created when all

aspects are incorporated – both hard and soft ones. We endeavour to serve as a role model by investing responsibly and acting responsibly as owners. In this context, particular emphasis is placed on promoting sustainable development, without compromising our return target or diverging from our investment rules.

“By being an active owner of our holdings, we make our voice heard when anomalies come to light”

By being an active owner of our holdings, we make our voice heard when anomalies come to light. A clear example of this was during the 2015 AGM season, when Första AP-fonden clearly expressed dissatisfaction with corporate governance in the Industrivärden sphere, leading to a number of important changes being put in place.

Towards the end of the six-month period, the Ministry of Finance’s communication setting out a proposal for new rules for the AP funds was published. The proposal entails major changes to what is today well-functioning management of pension capital in the AP funds which, according to many experts (including the Swedish Parliament and consultancy McKinsey), delivers solid sustainable return at a low cost.

Första AP-fonden currently has a target that is evaluated over a ten-year horizon. According to the proposal set out in the communication, the asset management risks having a more short-term focus and undesirable standardisation. The proposed frameworks and objective limit, for example, the incentive to invest in assets that are important and attractive in the long term, such as infrastructure and real estate. On the whole, the proposal risks leading to lower return over time.

As we enter the second half of 2015, uncertainty about our future overshadows the operations. I would like to take this opportunity to thank all the staff of the Fund, who remain engaged and forward-looking in their work, and who so clearly work hard to achieve our targets. It is my hope that readers of this interim report will also take the time to read our thoroughly prepared consultation response to the proposal regarding the future of the AP funds in October.

Stockholm, August 2015



Johan Magnusson, CEO

FUND PERFORMANCE IN JANUARY–JUNE 2015

Första AP-fonden's net investment income for January – June 2015 was SEK 14.3 billion (16.6), giving return after expenses of 5.0 per cent (6.5).

Measured over the last ten-year period, return was 6.5 per cent. This equals real return of 5.3 per cent, overshooting the long-term target of real return after expenses of 4.0 per cent over rolling ten-year periods.

In the first six months of 2015, the Fund transferred SEK 2.4 billion (2.5) to the pension system to cover the deficit in pension contributions in relation to pension disbursements. In the past ten years, the Fund has contributed SEK 22.8 billion to cover the deficit in pension disbursements.

Asset allocation

In the first six months of 2015, Första AP-fonden had exposure of around 50 per cent to listed equities, 30 per cent to fixed income assets and 20 per cent to alternative investments such as real estate, private equity funds, hedge funds and infrastructure.

Sustainable value creation

Första AP-fonden's entire asset management is steeped in its ambition to generate long-term sustainable value growth.

This includes, in accordance with the mandate from Swedish Parliament, taking ethics and the environment into consideration in investment decisions. It also encompasses working actively with shareholder activism in existing holdings to steer them towards sustainable business. In all asset classes, sustainability is taken into consideration in investment decisions.

Equities

At the end of June, Första AP-fonden's equity portfolio was valued at SEK 106.3 billion, broken down into 41.4 per cent in foreign developed countries, 32.3 per cent in emerging markets and 32.5 per cent in Sweden. Swedish equities and equities in foreign developed countries are managed internally at the Fund, with a focus on large and medium-sized companies. Emerging markets and small caps are dealt with by external managers. Besides in the equity portfolio, the Fund has listed equities reported under other assets in the Systematic Strategies sub-portfolio.

Return for Jan – June 2015 before expenses in local currency

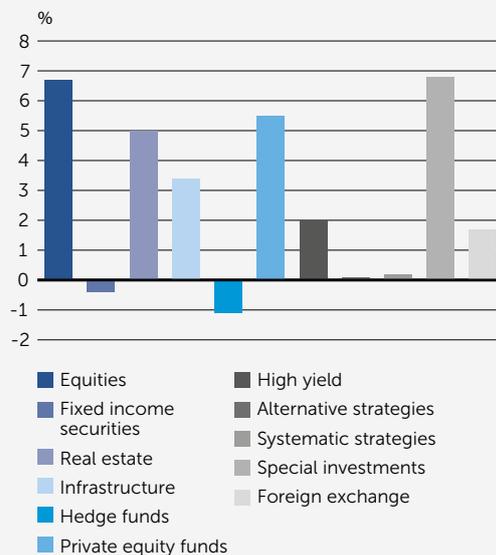
	Contribution, SEK bn	Contribution, %	Portfolio return, %
Equities	7.5	2.6	6.7
Sweden	3.3	1.2	9.9
Developed countries	1.6	0.6	3.4
Emerging markets	2.6	0.9	8.7 ¹
Fixed income securities	-0.4	-0.2	-0.4
Real estate	1.3	0.4	5.0
Infrastructure	0.0	0.0	3.4
Hedge funds	-0.1	0.0	-1.1
Private equity funds	0.7	0.2	5.5
High yield	0.1	0.1	2.0
Alternative strategies	0.0	0.0	0.1
Systematic strategies	0.3	0.1	0.2
Special investments	0.3	0.1	6.8
Allocation, cash and foreign exchange	4.7	1.7	1.7
Total	14.3	5.1	5.1

1) Not in local currency.

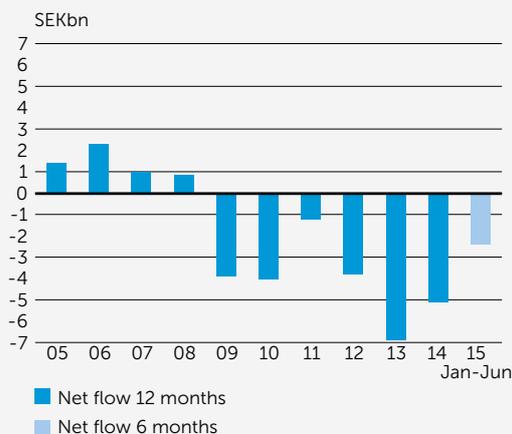
Return after expenses, % 2005 – June 2015



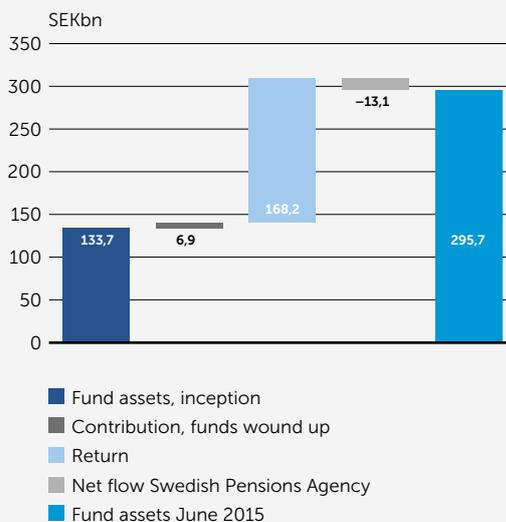
Return by asset class, Jan – Jun 2015



Net flow



Net assets performance



The equity portfolio displayed a positive performance in the first six months of the year. In particular, the allocation to Swedish equities made a positive contribution.

The return of the equity portfolio in the first six months was 6.7 per cent, equalling SEK 7.5 billion.

Fixed income securities and foreign exchange

Första AP-fonden's fixed income portfolio was valued at SEK 84.3 billion at the end of June, with the majority invested in foreign securities. At the end of June, Första AP-fonden's fixed income portfolio consisted of 8.7 per cent nominal government bonds, 13.3 per cent credit bonds and 6.5 per cent real bonds.

Besides in the fixed portfolio, the Fund has fixed income securities reported under other assets in the Alternative Strategies sub-portfolio.

Return on the Fund's fixed income portfolio was -0.4 per cent, equalling SEK -0.4 billion before expenses for January – June 2015.

Real estate

Första AP-fonden's real estate holding was valued at SEK 27.7 billion at the end of June, equalling 9.4 per cent of net assets. The Fund's real estate investments are mainly focused on running return from rent payments, and to a lesser extent on investments with expected value appreciation as the main return component.

The value of the portfolio increased thanks to value growth in the existing holding, and through investments within the bounds of subsidiaries that were already wholly or partially owned.

The return of the real estate portfolio in the first six months of 2015 was 5.0 per cent, equalling SEK 1.3 billion.

Hedge funds

Första AP-fonden's hedge fund portfolio was valued at SEK 15.0 billion at the end of June, equalling 5.1 per cent of net assets. Investments in hedge funds are designed to tone down the effects of sharp price volatility in the rest of the portfolio.

In the first half of 2015, the hedge fund portfolio showed negative return of –1.1 per cent, equalling SEK –0.1 billion.

Private equity funds

Första AP-fonden's investments in private equity funds amount to SEK 13.9 billion, equalling 4.7 per cent of net assets. The Fund invests globally in private equity funds through external managers. Return on this asset class is expected to be higher than for listed equities over time.

The return of the private equity portfolio in the first six months of 2015 was 5.5 per cent, equalling SEK 0.7 billion.

Infrastructure

The Fund's investments in infrastructure amount to SEK 5.8 billion, equalling 2.0 per cent of net assets. In the first six months of 2015, the Fund made an initial direct investment in infrastructure. Through a consortium with Folksam, Tredje AP-fonden and Canadian pension fund OMER's infrastructure company Borealis, it acquired electricity distribution company Ellevio from Fortum.

The return of the infrastructure portfolio in the first six months of 2015 was 3.4 per cent, but did not contribute to net investment income because of its low weighting for a substantial part of the period.

High yield

Första AP-fonden's high yield investments amount to SEK 7.6 billion, equalling 2.6 per cent of net assets. In the high-yield portfolio, investments are made in non-investment grade, high yield bonds.

The return of the high yield portfolio in the first six months of 2015 was 2.0 per cent, equalling SEK 0.1 billion.

Alternative strategies

Första AP-fonden's alternative strategies portfolio amounts to SEK 14.2 billion, equalling 4.8 per cent of net assets. Alternative strategies includes a risk parity portfolio with the purpose of limiting macroeconomic risks

without renouncing return opportunities and a portfolio consisting of alternative beta strategies designed to systematically obtain risk premiums.

The return of alternative strategies in the first six months was 0.1 per cent, equalling SEK 0.01 billion.

Systematic strategies

Första AP-fonden's systematic strategies portfolio amounts to SEK 14.1 billion, equalling 4.8 per cent of net assets. Systematic strategies currently only include investments in equities with low volatility in developed countries.

The return of systematic strategies in the first six months was 0.2 per cent, equalling SEK 0.3 billion.

Special investments

Första AP-fonden's special investments portfolio amounts to SEK 4.0 billion, equalling 1.3 per cent of net assets. Special investments include the Fund's new investment areas, such as agricultural land and real estate investments on new markets.

The return of special investments in the first six months was 6.8 per cent, equalling SEK 0.3 billion.

Expenses

The Fund's expenses are broken down into operating expenses and commission expenses. In the first six months of 2015, operating expenses were SEK 90 million (84). Commission expenses, which encompass fixed management fees and custodian bank fees, were SEK 163 million (122) in the period. The Fund's total expenses amounted to SEK 253 million (206), equalling an annualised expense level of 0.17 per cent (0.16) in relation to the average value of net assets.

The increase in administrative expenses is largely due to the appreciation of the dollar, and partly because the management mandate for equities in emerging markets has changed and assets under management have increased.

On 30 June 2015, Första AP-fonden had 53 employees (48).

Events after the close of the reporting period

In the first half of the year, Cityhold Property, equally owned by Första AP-fonden and Andra AP-fonden, signed an agreement with pension fund TIAA-CREF regarding the merger of the real estate holding of the two parties by forming Cityhold Office Partnership, in which Första AP-fonden owns 25 per cent.

The properties in the new company, which are centred around European cities, are valued at around EUR 2.2 billion. The ambition is for the three owners to contribute capital to enable the holding to double.

TEN-YEAR OVERVIEW

	30/06/2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Net investment income and inflow, SEK bn										
Net assets at 31 December	295.7	283.8	252.5	233.7	213.3	218.8	202.3	171.6	218.8	207.1
Net flow from the pension system	-2.4	-5.1	-6.9	-3.8	-1.2	-4.0	-3.9	0.9	2.0	1.7
Net investment income for the year	14.3	36.4	25.7	24.2	-4.2	20.5	34.6	-48.0	9.7	18.2
Return, expenses and risk, %										
Return before expenses	5.1	14.8	11.3	11.4	-1.7	10.3	20.4	-21.7	4.8	9.8
Operating expenses, annualised, % of AUM	0.06	0.07	0.07	0.08	0.07	0.08	0.10	0.09	0.08	0.08
Commission expenses, annualised, % of AUM	0.11	0.10	0.08	0.06	0.05	0.05	0.06	0.07	0.07	0.07
Return after expenses	5.0	14.6	11.2	11.3	-1.9	10.2	20.2	-21.9	4.6	9.6
Inflation	0.10	-	-	-	-	-	-	-	-	-
Real return after expenses ¹	4.9	-	-	-	-	-	-	-	-	-
Net investment income and expenses in total portfolio, SEK bn										
Net investment income before expenses	14.5	36.9	26.0	24.5	-4.0	20.8	34.9	-47.7	9.8	18.4
Operating expense, SEK bn	-0.3	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Exposure, %										
Equities	37.3	49.0	49.2	47.4	49.2	60.3	58.6	54.6	59.2	59.8
Sweden	10.9	11.7	12.0	11.4	12.6	15.7	13.8	11.2	-	-
Developed countries	14.8	27.2	27.5	25.0	25.3	-	-	-	-	-
Emerging markets	11.7	10.1	9.7	11.0	11.4	-	-	-	-	-
Fixed income securities	31.2	30.9	31.2	36.4	40.9	32.5	34.7	40.1	39.2	37.8
- of which, fixed income securities in alternative strategies	2.7	3.3	1.5	-	-	-	-	-	-	-
Real estate	9.4	8.5	8.8	7.7	5.6	5.0	3.4	4.0	2.3	2.5
Hedge funds	5.1	5.9	4.9	4.3	0.2	0.3	-	-	-	-
Private equity funds	4.7	4.4	3.3	3.2	2.8	2.0	1.7	1.4	0.7	-
Infrastructure	2.0	-	-	-	-	-	-	-	-	-
High yield	2.6	-	-	-	-	-	-	-	-	-
Alternative strategies	4.8	-	-	-	-	-	-	-	-	-
Systematic strategies	4.8	-	-	-	-	-	-	-	-	-
Special investments	1.3	-	-	-	-	-	-	-	-	-
Other assets	-	4.3	3.8	-	-	-	-	-	-	-
New investments	-	1.4	1.0	0.7	0.6	0.7	-	-	-	-
Foreign exchange	36.5	35.1	29.2	27.4	21.3	24.0	21.6	22.2	18.2	16.0
Risk										
Risk, standard deviation total portfolio	6.9	5.4	5.0	5.9	8.9	7.4	9.7	16.6	7.7	6.8
Sharpe ratio	1.4	2.6	2.1	1.9	neg.	1.1	2.0	neg.	0.1	1.0
External management, %										
Share of total portfolio ²	35.1	34.6	37.1	39.3	41.4	43.7	42.4	39.7	36.0	34.2

1) Historical figures not reported. New return measure from 2015.

2) The AP funds report wholly or partially owned real estate companies as internally managed.

PORTFOLIO COMPOSITION

Asset class	Portfolio value SEKm,			Portfolio value SEKm,		
	30/06/2015	Holding, %	Exposure, %	31/12/2014	Holding, %	Exposure, %
Equities	106,265.1	35.9	37.3	104,477.3	36.8	39.4
Sweden	32,513.8	11.0	10.9	32,390.6	11.4	11.6
Developed countries	41,415.4	14.0	14.8	43,434.2	15.3	17.7
Emerging markets	32,335.9	10.9	11.7	28,652.4	10.1	10.1
Fixed income securities ¹	84,255.8	28.5	28.5	71,040.1	25.0	25.0
Nominal, government	25,783.6	8.7		18,155.3	6.4	
Nominal, credit	39,257.2	13.3		33,867.2	11.9	
Real interest rates	19,215.1	6.5		19,017.6	6.7	
Cash	2,882.7	1.0	-0.3	4,299.9	1.5	-1.1
Total listed investments	193,403.6			179,817.3		
Real estate	27,693.8	9.4	9.4	24,987.8	8.8	8.8
Infrastructure	5,796.4	2.0	2.0	0.0	0.0	0.0
Hedge funds	15,051.6	5.1	5.1	15,811.5	5.6	5.6
Private equity funds	13,874.1	4.7	4.7	12,516.2	4.4	4.4
High yield	7,616.2	2.6	2.6	7,033.2	2.5	2.5
Alternative strategies	14,153.6	4.8	4.8	13,378.3	4.7	4.7
Systematic strategies	14,137.3	4.8	4.8	26,114.6	9.2	9.2
Special investments	3,951.5	1.3	1.3	4,152.0	1.5	1.5
Total portfolio	295,678.0	100	100.3	283,811.0	100	101.1

1) Total exposure including alternative strategies: 31.2 per cent (30.9).

FOREIGN EXCHANGE EXPOSURE

Foreign exchange exposure 30/06/2015, SEKm	USD	GBP	EUR	JPY	Others	Total
Net assets	132,236	16,751	29,384	2,313	29,517	210,201
Derivatives	-51,814	-15,580	-20,431	-2,036	-12,561	-102,422
Foreign exchange exposure, 30 June	80,422	1,171	8,953	277	16,956	107,779

INCOME STATEMENT

SEKm	Jan–Jun 2015	Jan–Jun 2014	2014
Operating income			
Net interest income	720	1,470	2,626
Dividends received	3,454	3,035	3,999
Net gains/losses, listed shares and participations	4,504	5,282	8,549
Net gains/losses, unlisted shares and participations	2,240	2,841	6,046
Net gains/losses, fixed income assets	–734	2,828	3,888
Net gains/losses, derivative instruments	921	–1,176	–2,310
Net gains/losses, foreign exchange movements	3,432	2,542	14,082
Commission expenses	–163	–122	–279
Total operating income	14,374	16,700	36,601
Operating expenses			
Personnel costs	–58	–56	–120
Other administrative expenses	–32	–28	–57
Total operating expenses	–90	–84	–177
Net investment income	14,284	16,616	36,424

BALANCE SHEET

SEKm	Jan–Jun 2015	Jan–Jun 2014	2014
Assets			
Shares and participations, listed	131,472	128,422	132,907
Shares and participations, unlisted	63,642	48,943	60,607
Bonds and other fixed income assets	96,695	87,823	90,567
Derivatives	2,500	288	622
Cash and bank balances	2,170	1,595	2,112
Other assets	1,721	1,165	162
Prepaid expenses and accrued income	1,188	1,144	866
Total assets	299,388	269,380	287,843
Liabilities			
Derivatives	2,120	1,430	3,908
Other liabilities	1,544	1,257	89
Deferred income and accrued expenses	46	38	45
Total liabilities	3,710	2,725	4,042
Net assets			
Opening net assets	283,811	252,507	252,507
Net payments to/from the pension system	–2,417	–2,468	–5,120
Net investment income for the year	14,284	16,616	36,424
Total net assets	295,678	266,655	283,811
Total net assets and liabilities	299,388	269,380	287,853

Första AP-fonden. Box 16294, 103 25 Stockholm, Sweden
Visiting address: Regeringsgatan 28, Stockholm, Sweden Tel.: +46 8 566 202 00

ap1.se

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