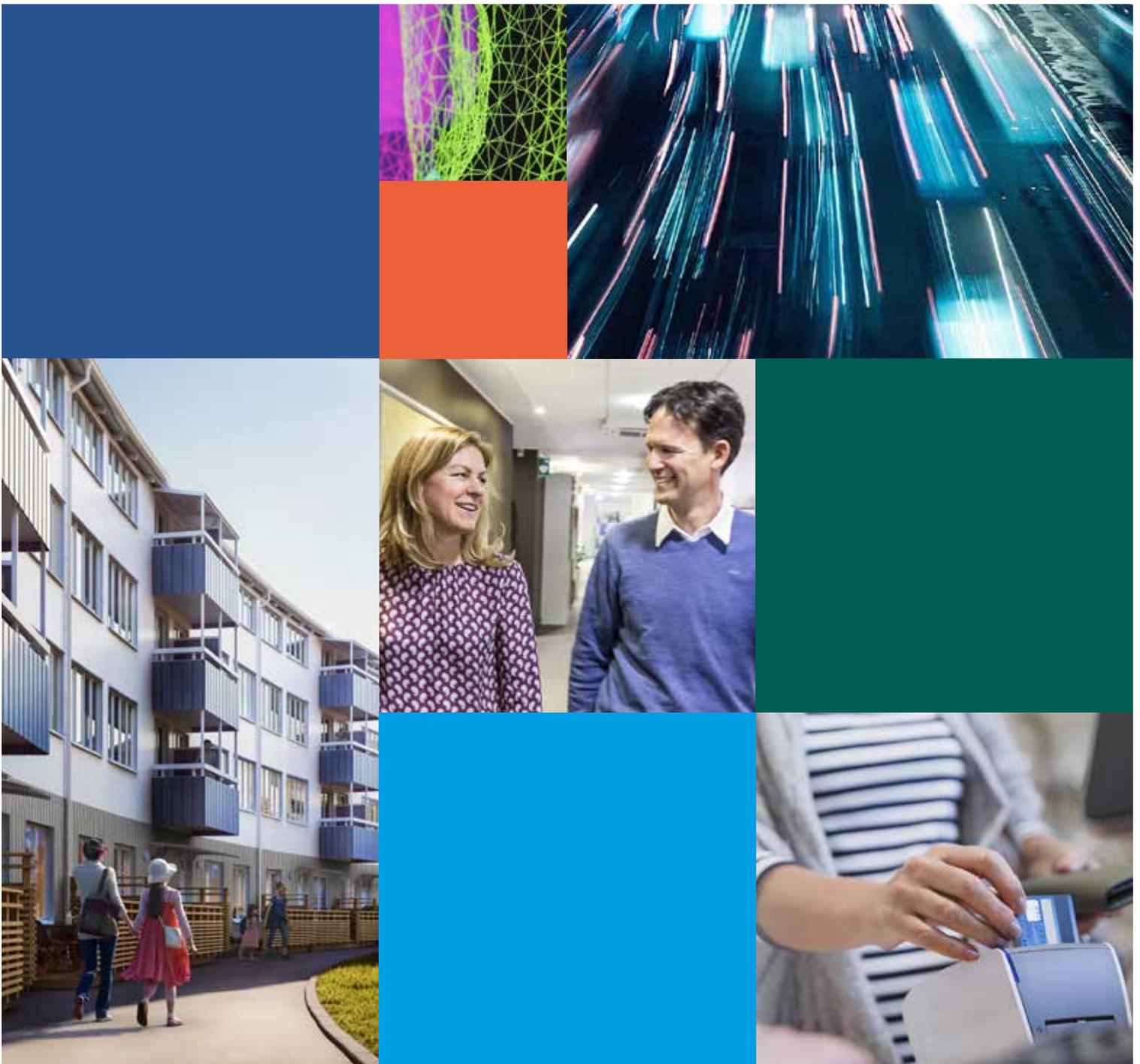


# Interim Report 2018



Vasakronan's real estate stock is valued at approximately SEK 130 billion and is owned jointly by the four AP Funds, AP1-AP4.

Return  
after expenses  
**2.5%**

SEK **3.3** bn  
into the pension system

Net investment income  
SEK **8.5** bn

Net assets  
SEK **338** bn

# The first half of 2018 in brief

Net investment income of SEK 8.5 billion for the first six months of 2018 means that Första AP-fonden's (AP1's) return exceeds the long-term target of a real return of 4.0 per cent after expenses, and total net assets increased to SEK 337.7 billion as per 30 June.

- Net investment income for the first six months of 2018 amounted to SEK 8.5 billion (16.1) after expenses.
- Return totalled 2.5 per cent (5.2) after expenses.
- Measured over the latest ten-year period, the average real annual return amounted to 6.3 per cent (4.3), exceeding the long-term target of a real return after expenses of 4.0 per cent over rolling ten-year periods.
- Since negative net flows for the national income pension system in 2009, AP1 has disbursed a total of SEK 47 billion, of which SEK 3.3 billion (3.7) was transferred to the Swedish Pensions Agency in the first half of 2018.
- Total net assets increased by SEK 5.2 billion (12.4) to SEK 337.7 billion as per 30 June 2018.
- The Fund's administrative expenses decreased to SEK 221 million (237), equating to 0.13 per cent (0.15) of assets under management in annual terms.
- Since negative net flows for the national income pension

## Key ratios

	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Closing net assets, SEK	337.7	322.9	332.5
Net investment income for the period, SEK	8.5	16.1	29.3
Net flow to the pension system, SEK	-3.3	-3.7	-7.4
Opening net assets, SEK	332.5	310.5	310.5
Expense ratio, operating expenses, % <sup>(1)</sup>	0.07	0.07	0.07
Expense ratio, commission expenses, % <sup>(1)</sup>	0.07	0.08	0.07
Total expense ratio, % <sup>(1)</sup>	0.13	0.15	0.14
Return after expenses, %	2.5	5.2	9.6
Real return after expenses, %	1.7	4.5	7.8
Annualised return after expenses, 5 years, % <sup>(2)</sup>	9.3	10.1	9.6
Annualised return after expenses, 10 years, % <sup>(2)</sup>	7.2	5.4	6.0
Real annualised return after expenses, 10 years, % <sup>(3)</sup>	6.3	4.3	5.0

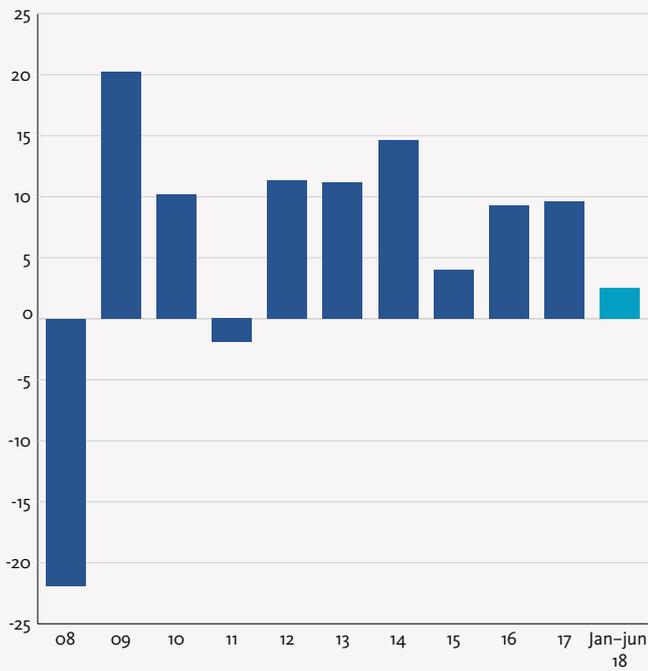
<sup>(1)</sup> In six-month interim reports, the expense ratio is calculated as the full-year effect

<sup>(2)</sup> Also in six-month interim reports, the annualised return is calculated for 10 and 5 years respectively

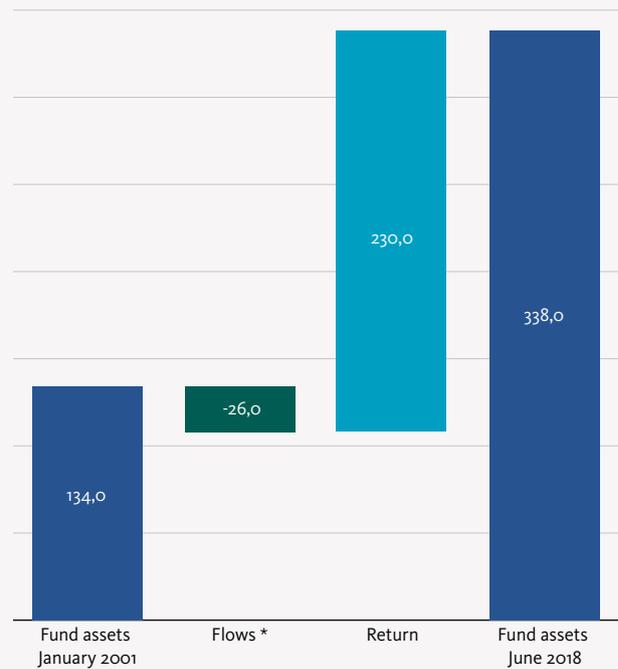
<sup>(3)</sup> The KPI for June 2018 is an estimate as the figure was not available at the time this report was published.

## FINANCIAL SUMMARY

### Return after expenses 2008 – June 2018, %

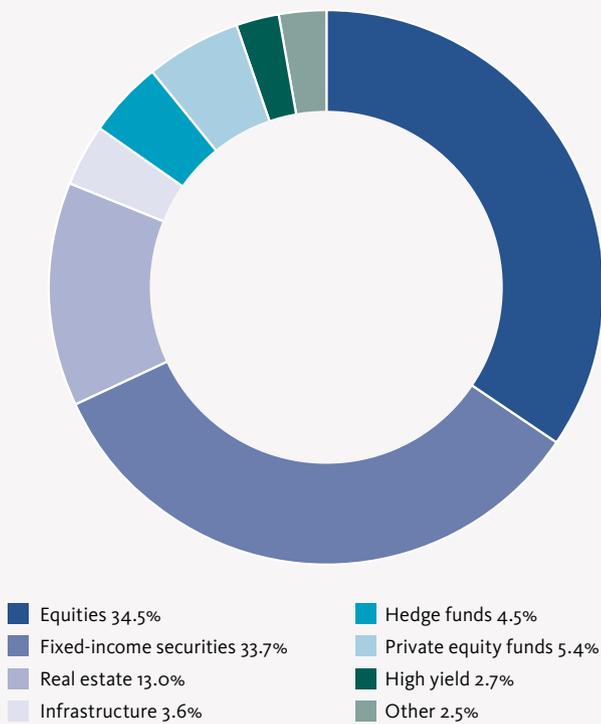


### Net asset performance 2001 – June 2018, SEK bn

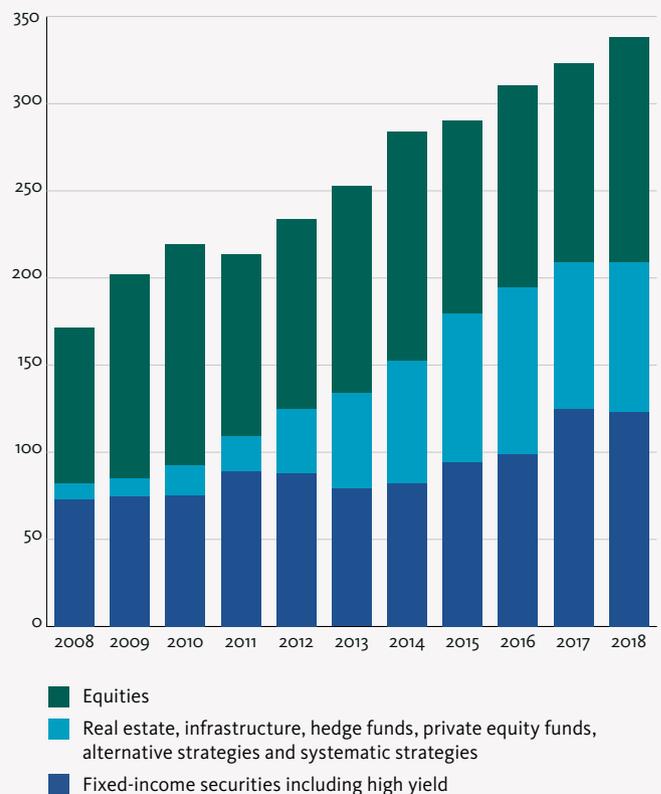


\* Incl. flows from liquidation funds/special investments in 2001-2008

### Assets by class



### Net asset performance 2008 – June 2018, SEK bn



# A long-term approach – our most critical advantage

Första AP-fonden (AP1) reported net investment income of SEK 8.5 billion after expenses for the first six months of 2018, which equates to a return of 2.5 per cent. Net assets increased by SEK 5 billion to SEK 338 billion. We are exceeding AP1's long-term target of a real return of 4 per cent after expenses over a rolling ten-year period, the return amounting to 6.3 per cent for the latest ten-year period. Our costs fell for the first half-year and total expenses remain low both in absolute terms and by international comparison.

Together with the other AP Funds, AP1 has delivered historically strong results over the years and has thereby helped the system for income pension to remain strong. The Funds represent approximately 15 per cent of the pension system's assets, compared to 10 per cent when the pension system began in 2001.

The global economy continued to develop strongly during the first six months of the year, although the growth rate may have peaked. Europe declined somewhat, while the US economy remained strong. Tax cuts were a contributor in this. On emerging markets some more long-term growth power may remain, even though a rising dollar has caused some concern in recent months.

The challenge for us over the next few years will be to deliver a return close to the high levels of recent years. Other challenging factors include imbalances created by the exceptional monetary policy with anticipated low or negative returns on fixed-income investments, as well as high valuations, the normalisation of which risks causing large drops in value.

During the first six months of the year AP1 has taken small steps towards a slightly more defensive portfolio



Johan  
Magnusson

focus. There have not been any major movements, but these steps indicate that we believe we are in a late stage of the economic cycle and there is an increased risk of weaker development.

*“Our expenses  
remain low.”*

Players in our market environment sometimes expect the AP Funds to take immediate measures when there are short-term losses. This risks reducing the opportunities for decision-makers at all levels in the management organisation to exploit one of our most critical advantages – the ability to take a long-term approach.

AP1 is well-equipped to carry the risk that short-term market fluctuations entail. Therefore, it is important that we have a culture which can sustainably support our long-term focus. It is also vital that Sweden's government and parliament, along with the media and opinion leaders, have faith in us. We strive to achieve this by being active and transparent and taking a long-term approach, and by explaining

how our actions lead to a good return over time.

From 1 January 2019, changes to investment rules will bring about more modern, flexible regulations. This will give us a better foundation to achieve our return target, for instance by reducing the lower limit for fixed-income securities from 30 to 20 per cent. This is the first step in the modernisation of the investment guidelines. It is now important that also the next step is taken, which will define the opportunities for direct investments in unlisted holdings such as infrastructure companies, illiquid credits and joint investments in unlisted companies.

The new regulations place higher demands on the AP Funds to act in an exemplary manner in terms of sustainability. We will work together on core values, guidelines for sustainability reporting, and which assets should be avoided.

We are making conscious efforts to develop sustainable value creation by integrating sustainability issues for the entire portfolio. During the spring, we drew up special internal sustainability beliefs to create cogency regarding how these issues are handled. A strategy is currently being developed for implementation, including measurement and reporting, in line with Agenda 2030 and the UN's Sustainable Development Goals.

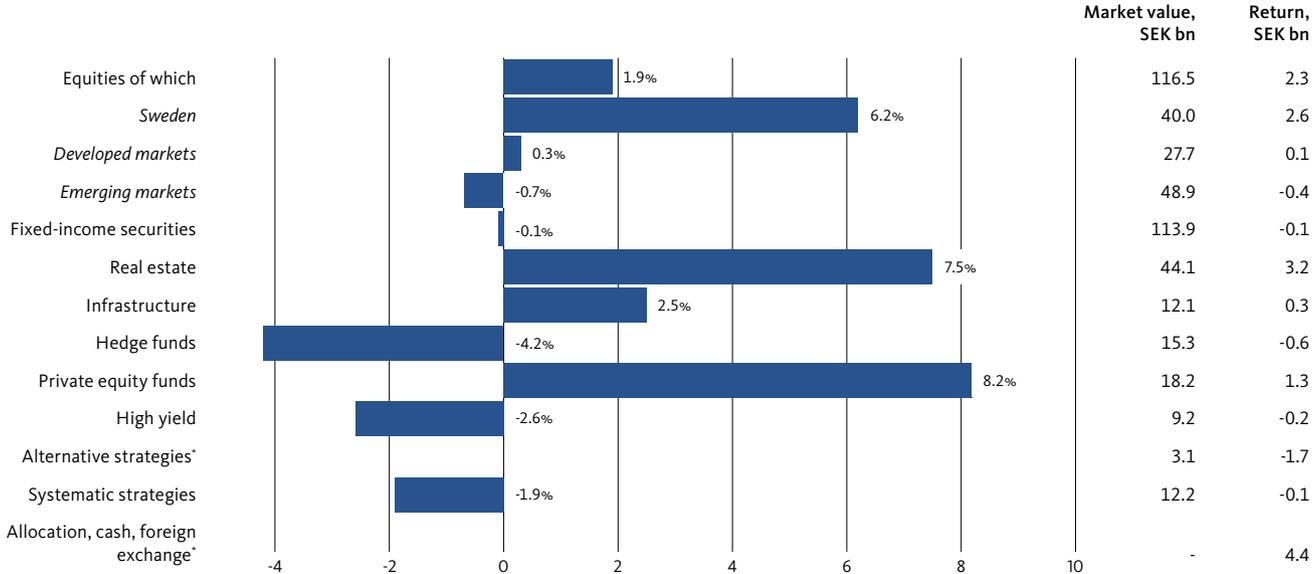
We continue to work for a strong, stable national income pension system in an increasingly challenging market. Our dedicated, experienced and highly skilled employees are crucial to our success.

Stockholm, July 2018  
Johan Magnusson



There are several medical technology companies in AP1's portfolio.

Return by asset class, first six months of 2018



\* The vast majority of the underlying strategies are non capital-binding, which is why return in relation to funded capital is not relevant.

## Ten-Year Overview

	Jan-Jun 2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Net investment income and inflow, SEK bn</b>										
Net assets at end of period	337.7	332.5	310.5	290.2	283.8	252.5	233.7	213.3	218.8	202.3
Net flows from the pension system	-3.3	-7.4	-6.6	-4.9	-5.1	-6.9	-3.8	-1.2	-4.0	-3.9
Net investment income for the year	8.5	29.3	27.0	11.3	36.4	25.7	24.2	-4.2	20.5	34.6
<b>Return, expenses and risk, %</b>										
Return before expenses	2.6	9.7	9.5	4.1	14.8	11.3	11.4	-1.7	10.3	20.4
Operating expenses, annualised, % of AUM	0.07	0.07	0.06	0.06	0.07	0.07	0.08	0.07	0.08	0.10
Commission expenses, annualised, % of AUM	0.07	0.07	0.09	0.11	0.10	0.07	0.06	0.05	0.05	0.06
Return after expenses	2.5	9.6	9.3	4.0	14.6	11.2	11.3	-1.9	10.2	20.2
<b>Net investment income and expenses in total portfolio, SEK bn</b>										
Net investment income before expenses	8.7	29.8	27.4	11.8	36.9	26.0	24.5	-4.0	20.8	34.9
Total administrative expenses, SEK bn	-0.2	-0.4	-0.5	-0.5	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3
<b>Exposure, %</b>										
Equities	35.7	37.9	34.1	34.7	48.9	49.2	47.4	49.2	60.3	58.6
Sweden	11.8	12.9	12.3	12.3	11.6	12.0	11.4	12.6	15.7	13.8
Developed markets	9.2	10.7	12.5	14.4	27.1	27.5	25.0	25.3		
Emerging markets	14.7	14.2	9.2	8.0	10.1	9.7	11.0	11.4		
Fixed-income securities	33.7	31.7	29.8	30.2	30.9	31.2	36.4	40.9	32.5	34.7
- of which fixed-income securities in other assets	0.6	0.5	2.5	2.3	3.3	1.5				
Cash	-3.2 bn	-2.4	-1.1	-0.1	-1.1	-0.7				
Real estate	13.0	12.8	12.6	11.5	8.8	8.8	7.7	5.6	5.0	3.4
Infrastructure	3.6	3.4	3.0	2.9						
Hedge funds	4.5	4.0	5.0	4.8	5.9	4.9	4.3	0.2	0.3	-
Private equity funds	5.4	4.6	4.7	5.0	4.4	3.3	3.2	2.8	2.0	1.7
High yield	2.7	4.5	4.5	2.9						
Alternative strategies	0.9	1.0	5.0	4.4						
Systematic strategies	3.6	3.0	4.5	5.2	5.6	4.8	0.7	0.6	0.7	
Special investments			0.5	0.7						
Foreign exchange	27.6	25.3	22.1	31.3	35.1	29.2	27.4	21.3	24.0	21.6
<b>Risk</b>										
Risk <sup>(1)</sup>	4.8	3.6	6.4	8.1	5.4	5.0	5.9	8.9	7.4	9.7
Sharpe ratio	1.2	2.9	1.5	0.5	2.6	2.1	1.9	neg.	1.1	2.0
<b>External management, %</b>										
Share of total portfolio at 30 June <sup>(2)</sup>	33.9	32.5	31.8	31.0	34.6	37.1	39.3	41.4	43.7	42.4

<sup>(1)</sup> Standard deviation calculated on daily return in 2018.

<sup>(2)</sup> In accordance with a joint decision, the AP Funds report wholly or partially owned real estate companies as being internally managed.

## Income Statement

SEK m	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
<b>Operating income</b>			
Net interest income	1,277	1,187	1,991
Dividends received	4,025	3,907	4,897
Net gains/losses, listed shares and participations	-132	9,955	16,632
Net gains/losses, unlisted shares and participations	2,672	3,046	7,457
Net gains/losses, fixed-income assets	-768	-190	278
Net gains/losses, derivative instruments	-3,159	38	1,075
Net gains/losses, foreign exchange movements	4,822	-1,642	-2,486
Commission expenses	-111	-132	-236
<b>Total operating income</b>	<b>8,626</b>	<b>16,169</b>	<b>29,558</b>
<b>Operating expenses</b>			
Personnel costs	-65	-63	-131
Other administrative expenses	-45	-42	-78
<b>Total operating expenses</b>	<b>-110</b>	<b>-105</b>	<b>-209</b>
<b>Net investment income</b>	<b>8,516</b>	<b>16,064</b>	<b>29,349</b>

### Accounting and valuation policies

This interim report has been prepared in accordance with the accounting and valuation policies formulated jointly by the AP Funds.

With the introduction on 1 January 2018 of IFRS 9 and changes to IAS 1, the interest components of all derivative instruments are reported in net

gains/losses rather than net interest income. To simplify comparison with the previous year, the comparison figures have been adjusted accordingly. Otherwise the accounting and valuation policies remain the same as the overview provided in the 2017 Annual Report.

The interim report has not been reviewed by the Fund's auditors.

## Balance Sheet

SEK m	30 Jun 18	30 Jun 17	31 Dec 17
<b>Assets</b>			
Shares and participations, listed	138,598	132,434	138,328
Shares and participations, unlisted	79,150	67,734	71,568
Bonds and other fixed-income assets	114,417	103,300	114,226
Derivatives	203	4,206	2,753
Cash and bank balances	6,486	4,075	5,085
Other assets	1,948	13,033	989
Prepaid expenses and accrued income	1,014	1,064	912
<b>Total assets</b>	<b>341,816</b>	<b>325,846</b>	<b>333,861</b>
<b>Liabilities</b>			
Derivatives	3,173	285	645
Other liabilities	895	2,618	666
Deferred income and accrued expenses	43	30	41
<b>Total liabilities</b>	<b>4,111</b>	<b>2,933</b>	<b>1,352</b>
<b>Net assets</b>			
Opening net assets	332,509	310,535	310,535
Net payments to/from the pension system	-3,320	-3,686	-7,375
<b>Net investment income for the year</b>	<b>8,516</b>	<b>16,064</b>	<b>29,349</b>
<b>Total net assets</b>	<b>337,705</b>	<b>322,913</b>	<b>332,509</b>
<b>Total net assets and liabilities</b>	<b>341,816</b>	<b>325,846</b>	<b>333,861</b>



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