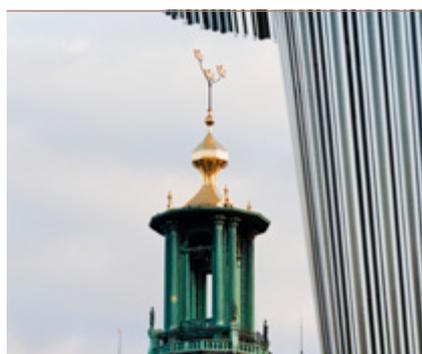




Interim Report
2020





Net investment income for the first half-year amounted to

SEK **-6.6** bn

(31.4) after expenses. This equals a return of -1.8 per cent (9.7).

Return after expenses for the first half-year amounted to

-1.8%

The average annual real return after expenses for the past ten-year period is 6.7%.*

AP1's total assets amounted to

SEK **355.0** bn

(352.0) on 30 June 2020.

The Fund's administrative expenses totalled

SEK **108** m

(111), which equates to 0.09% (0.13) of average AUM.

Net flow into the pension system totalled

SEK **-4.2** bn

(-3.0).

*From 2020, this target has been adjusted to 3 per cent in real terms over rolling ten-year periods, and 4 per cent in real terms over 40 years.

Brief facts about Första AP-fonden (AP1)

Första AP-fonden's (AP1's) mandate is, in an exemplary way, to manage part of the buffer capital in the national pension system so as to deliver long-term high returns at a low cost.

AP1 plays a key role for current and future pensioners. Good performance by the Fund helps to create stability across generations.

Our net assets of SEK 355 billion are distributed across equities, fixed-income securities, real estate, infrastructure, private equity funds and hedge funds.

We are firmly anchored in Sweden but have investments worldwide.

We are a responsible, long-term investor and an active owner.

Active ownership and key ratios
read more on page 3.

Comments from the CEO
read more on page 4.

Return and assets
read more on page 6.

Sustainability
read more on page 7.

Financial summary
read more on pages 9–11.

This interim report has been prepared in accordance with the accounting and valuation policies formulated jointly by the AP Funds; see the AP1 Annual Report 2019. Unless otherwise stated, the same accounting policies and calculation methods have been used as in the Annual Report 2019. The figures in the tables and charts for this six-month interim report have been individually rounded off, which is why they may not always add up to the totals provided. Figures in brackets refer to the first six months of 2019 unless otherwise stated.

The six-month interim report has not been reviewed by AP1's auditors.

There have been no significant events since the end of the period.

The AP1 Annual Report 2020 will be published in February 2021.

Active ownership

AP1 has played an active ownership role during the first half of 2020 by voting at

64 Swedish and
418 foreign AGMs
(to 31 May 2020)

Ahead of the 2020 AGM season AP1 worked on

11 nomination committees
in listed companies and
Vasakronan.

Key ratios

	Jan-Jun 2020	Jan-Jun 2019	Jan-Dec 2019
Closing net assets, SEK bn	355.0	352.0	365.8
Net investment income for the period, SEK bn	-6.6	31.4	48.6
Net flow to the pension system, SEK bn	-4.2	-3.0	-6.5
Opening net assets, SEK bn	365.8	332.5	323.7
Expense ratio, operating expenses, %*	0.06	0.07	0.07
Expense ratio, commission expenses, %*	0.03	0.07	0.05
Total expense ratio, %*	0.09	0.13	0.12
Return after expenses, %	-1.8	9.7	15.1
Real return after expenses, %	-1.0	9.0	13.4
Annualised return after expenses, 5 years, %	5.8	7.8	7.3
Annualised return after expenses, 10 years, %**	7.8	8.9	8.1
Real annualised return after expenses, 10 years, %**	6.7	7.7	6.9

* In the six-month interim report, the expense ratio is calculated as the full-year effect

** Also in six-month interim reports, the annualised return is calculated for 10 and 5 years respectively
The KPI for June 2020 is an estimate as the figure was not available at the time this report was published.



COVID-19 pandemic changes playing field for global economy

The outbreak of COVID-19 during the first quarter presented the world's economies with whole new challenges. Measures to halt the spread of infection had significant effects on companies' value chains and prompted extensive furloughing and action programmes, followed by record increases in bankruptcies and unemployment in many countries around the world. Meanwhile, the record stimulus packages from central banks and governments led markets to become increasingly optimistic about a speedy recovery for the economy.

Long-term approach affords unique opportunities

AP1 is a major, long-term player, and this affords us unique opportunities in times of crisis. We have long had plans in place to guide what we do during severe market downturns, and this has been to our advantage. When the market began declining, we were able to invest and increase our risk exposure. It is vital that we have preparedness – and a mandate – to be able to act with a long-term return in mind.

Preparedness for a market decline served us well

The COVID-19 pandemic strongly influenced AP1's work during the spring, with constant reassessment of our management and allocation strategy, based on unique new circumstances that changed rapidly on a daily basis. For a while we have judged that the prospect of continued growth was poor, and we were positioned for a downturn in the market. Consequently, we went into the crisis with relatively low risk, and were also able to increase our exposure to equities before the markets gradually recovered. Some parts of the portfolio showed excellent returns, such as the Swedish small cap portfolio, and a favourable position in our fixed-income investments. Our assessment at this point, however, is that there is some cause for concern in the shape of the pandemic's uncertain development and its political consequences, as

well as increased global tensions and potential trade disputes, combined with higher indebtedness resulting from the stimulus packages. This may have an adverse impact on the global economy in the longer term. The pandemic has not affected the Fund's ability to deliver on its obligations to the Swedish income pension system.

Digital development speeds up

At the same time, new opportunities are opening up in this time of crisis. Digital development has speeded up, and the crisis may be an incubator for brand new, agile working methods and business models. We have all realised that it is possible to implement major changes and adjustments in just a few months, in companies and the economy generally, but also politically and globally.

Sustainability still in focus

In 2020 we are continuing our efforts to integrate our sustainability and climate strategy into all aspects of the Fund's management: as a natural part of the allocation process, and in all asset classes and investment decisions. Following our work to identify and analyse how climate risks can affect the wider world and thereby the Fund's investments, during 2019 AP1 decided to divest companies with fossil-based operations. We believe that the ongoing transition to a less fossil-dependent economy represents a great source of uncertainty for companies operating in the coal, oil and gas industry, and investing in these companies could entail a higher financial risk for AP1. The Fund also decided to produce a number of measurable interim targets for achieving a carbon-neutral portfolio

AP1 is a major, long-term player, and this affords us unique opportunities in times of crisis. We have long had plans in place to guide what we do during severe market downturns, and this has been to our advantage.

We have all realised that it is possible to implement major changes and adjustments in just a few months, in companies and the economy generally, but also politically and globally.



by 2050, one of them being to halve the portfolio's carbon footprint by 2030.

Active ownership contributes to long-term sustainable returns

We have also continued in our active ownership, whereby we exert an influence by taking a position on various issues and communicate clear expectations to company boards and managements, thus contributing to long-term sustainable returns. During the first half-year, for example, we have backed reduced or cancelled dividend payments, and voted against higher board fees and remuneration packages that are not in line with our wishes for e.g. sufficiently high performance requirements. We have also taken part in several nomination committees

where the focus has been on bringing more women onto company boards, and on proposing board members with the right expertise in greater diversity, for instance.

Strong commitment and pace among employees despite major challenges

For AP1's employees, the first half of 2020 has seen an unusually intense period for asset management coinciding with all kinds of practical limitations on how and where we can do our job. I am delighted to say that we have managed to deal with both the transition and the intensive workload with a maintained level of motivation and high work pace, and I would like to thank all our personnel for their efforts during this challenging time.

In August, Kristin Magnusson Bernard will be starting as the new CEO of AP1. It feels very reassuring to hand over the reins to Kristin. She has long experience of managing specialists and high-performance teams at Nordea, the ECB and the IMF, and has a great understanding of and commitment to sustainability issues. A warm welcome to AP1!

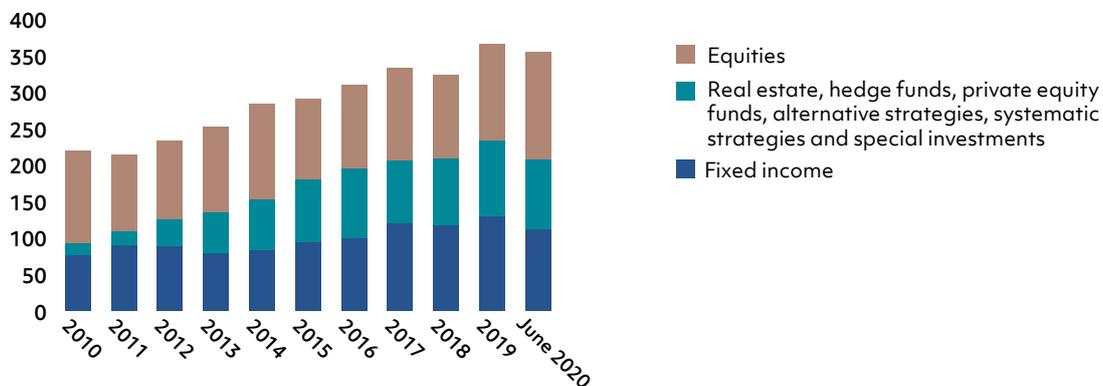
Stockholm, July 2020

A handwritten signature in black ink that reads "T. Isele".

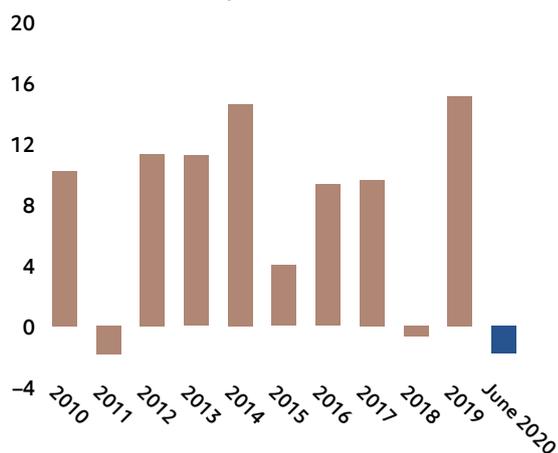
Teresa Isele,
Acting CEO

Return and assets

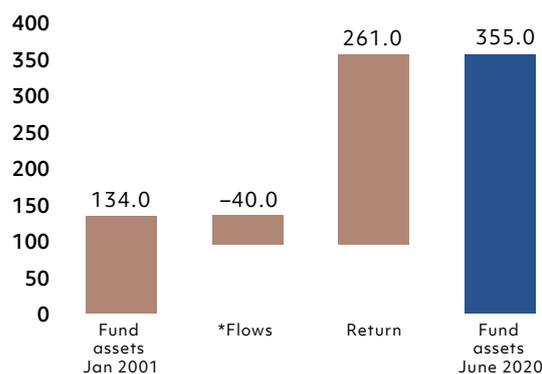
Net asset performance 2010–June 2020, SEK bn



Return after expenses 2010–June 2020, %

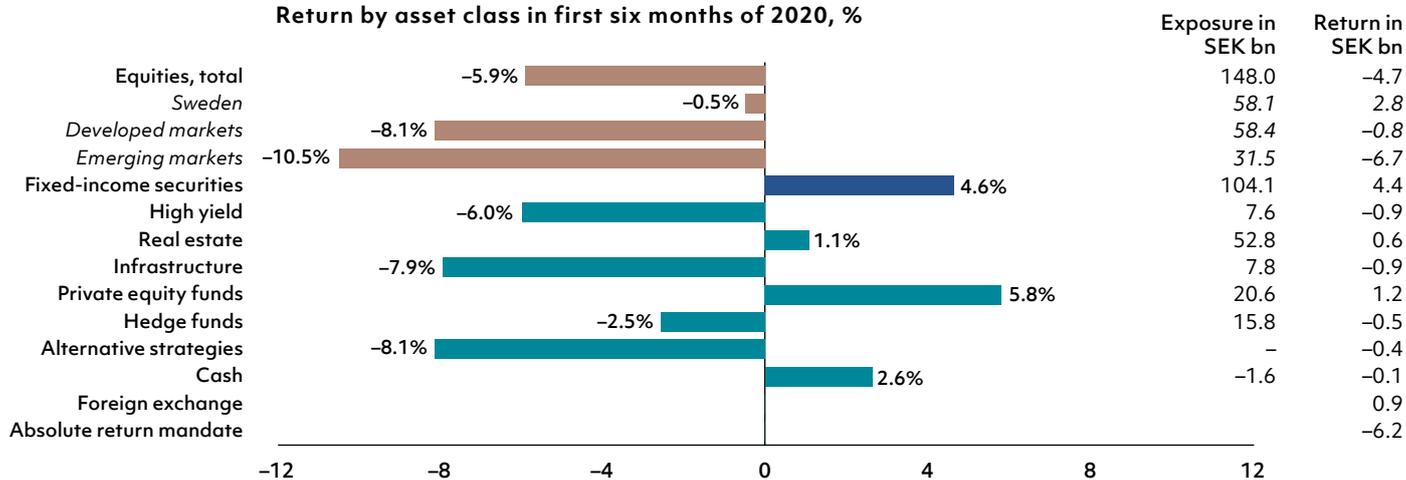


Net asset performance 2001–June 2020



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

Return by asset class in first six months of 2020, %



Big steps forward in sustainability

The first six months of 2020 have been dominated by the COVID-19 pandemic and its consequences, but despite this we have continued our long-term work on sustainability. AP1 has taken many important measures to further boost its sustainability work in different areas. For instance we have continued to integrate sustainability in our asset management, we have been active in our ownership and have also taken various advocacy initiatives.

During the first half of 2020 we have taken important steps towards further developing sustainability in all asset classes and investment decisions. This means for instance that climate scenarios will now be a part of our underlying model for allocating assets, and that

we are enhancing analysis of sustainability risks in our management of e.g. corporate bonds. We aim to have a carbon-neutral portfolio by 2050, and in 2020 we set an interim goal of halving our carbon footprint by 2030.

Divestment of fossil companies

In March we announced that the Fund will be pulling out of all investments in companies with fossil-based operations. The decision was made in 2019 following a long-term process to identify and analyse how climate risks can affect the wider world and thereby AP1's investments. An adjustment that limits global warming in line with the Paris Agreement's objectives is expected to result in far-reaching measures to reduce the use of fossil fuels. We judge that the transition will represent a

major source of uncertainty for companies in the coal, oil and gas industry. Investments in this type of company therefore represent a higher financial risk for the Fund. Divestment of the relevant companies began in early 2020.

Joint advocacy initiatives

Many of the reactive and proactive discussions we hold with companies and industries take place within the framework of the AP Funds' Council on Ethics. One example is the project the Council has been running alongside the Church of England Pensions Board to establish a global standard for mine dams (known as tailings dams). Negotiations were essentially finalised during the spring between the trade organisation ICMM with representatives from the Rio Tinto, Glencore, Freeport McMoran, Teck Resources, Antofagasta and AngloAmerican mining companies, as well as UNEP and the Council on Ethics representing PRI. The project is described in the Council on Ethics' annual report which was published in May.

Advocacy through active ownership

AP1 has also played a part in sustainability through active ownership. The COVID-19 pandemic forced many

companies to lay off or furlough employees, and the question of dividends featured on many AGM agendas during the spring. In Sweden, dividends in companies that received state support were also discussed. In mid-March, we announced that we do not object to reduced dividends. The Swedish Companies Act states that dividends may only be paid if it is defensible with regard to future risks, equity requirements, consolidation requirements and liquidity. We believe that the pandemic increases uncertainty for companies' liquidity, and that the money should therefore often remain in the companies. A great many boards of Swedish companies have also withdrawn or postponed their dividend proposals. In addition, by taking part in nomination committees, the Fund has pushed not to raise board fees while personnel are being laid off or furloughed. The ongoing COVID-19 pandemic has also led individual nations and global institutions to establish record stimulus packages. The issue has also been raised as to how these packages should be designed in order to be financially and climate sustainable. Alongside a hundred or so other institutional investors, we sent a letter to EU leaders recommending that recovery support following COVID-19 should be designed so as to help achieve the

objectives of the European Green Deal and the Paris Agreement.

Government assessment shows that AP Funds' sustainability work is on the leading edge

At the end of May, the Swedish government finished its annual review of the AP Funds' operations. It shows that the government is positive towards the work AP Funds and its joint Council on Ethics are doing. The AP Funds have continued to make a positive contribution to the long-term financing of the Swedish national income pension system, and have taken several important steps towards responsible, sustainable investment. According to the review, the AP Funds are on the leading edge in terms of sustainability, compared to the leading institutional investors globally. The Funds excel primarily in their active ownership engagement, and also in integrating sustainability with asset management.

From the 2019 Annual Report, our Sustainability Report is integrated with other reporting. In this six-month interim report, we highlight the most important sustainability initiatives during the first half of 2020.

Ten-Year Overview

Net investment income and inflow, SEK bn	Jan-Jun 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net assets, 30 June	355.0	365.8	323.7	332.5	310.5	290.2	283.8	252.5	233.7	213.3
Net flow from the pension system	-4.2	-6.5	-6.8	-7.4	-6.6	-4.9	-5.1	-6.9	-3.8	-1.2
Net investment income for the year	-6.6	48.6	-2.1	29.3	27.0	11.3	36.4	25.7	24.2	-4.2
Return, expenses and risk, %										
Return before expenses	-1.8	15.3	-0.6	9.7	9.5	4.1	14.8	11.3	11.4	-1.7
Operating expenses, annualised, % of AUM	0.06	0.07	0.06	0.07	0.06	0.06	0.07	0.07	0.08	0.07
Commission expenses, annualised, % of AUM	0.03	0.05	0.07	0.07	0.09	0.11	0.10	0.07	0.06	0.05
Return after expenses	-1.8	15.1	-0.7	9.6	9.3	4.0	14.6	11.2	11.3	-1.9
Net investment income and expenses in total portfolio, SEK bn										
Net investment income before expenses	-6.4	49.0	-1.6	29.8	27.4	11.8	36.9	26	24.5	-4
Operating expenses	-0.1	-0.4	-0.5	-0.4	-0.5	-0.5	-0.5	-0.3	-0.3	-0.3
Exposure, %										
Equities	41.7	36.3	34.1	37.9	34.1	34.7	48.9	49.2	47.4	49.2
Sweden	16.4	10.5	11.2	12.9	12.3	12.3	11.6	12	11.4	12.6
Developed markets ⁽¹⁾	16.5	11.9	8.8	10.7	12.5	14.4	27.1	27.5	25	25.3
Emerging markets	8.9	13.9	14.1	14.2	9.2	8.0	10.1	9.7	11.0	11.4
Fixed-income securities	29.3	32.3	33.3	31.7	29.8	30.2	30.9	31.2	36.4	40.9
Cash	-0.5	-0.3	-2.5	-2.4	-1.1	-0.1	-1.1	-0.7		
Real estate	14.9	14.8	14.3	12.8	12.6	11.5	8.8	8.8	7.7	5.6
Infrastructure	2.2	3.0	3.7	3.4	3.0	2.9				
Hedge funds	4.5	4.3	4.6	4.0	5.0	4.8	5.9	4.9	4.3	0.2
Private equity funds	5.8	5.4	5.5	4.6	4.7	5.0	4.4	3.3	3.2	2.8
High yield	2.2	3.0	2.8	4.5	4.5	2.9				
Alternative strategies	0.0	1.1	0.9	1.0	5.0	4.4				
Systematic strategies			3.2	3.0	4.5	5.2	5.6	4.8	0.7	0.6
Special investments					0.5	0.7				
Foreign exchange	20.4	25.7	26.0	25.3	22.1	31.3	35.1	29.2	27.4	21.3
Risk										
Risk ⁽²⁾	13.6	3.8	4.9	3.6	6.4	8.1	5.4	5	5.9	8.9
Sharpe ratio	neg.	4.2	0.0	2.9	1.5	0.5	2.6	2.1	1.9	neg.
External management, %										
Share of total portfolio at 30 June ⁽³⁾	24.2	31.4	33.5	32.5	31.8	31.0	34.6	37.1	39.3	41.4

(1) From the start in 2019, systematic strategies are included as a part of Equities in developed markets.

(2) Standard deviation calculated on daily return in 2019.

(3) 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 2020	Jan-Jun 2019	Jan-Dec 2019
Operating income			
Net interest income	1,164	1,247	2,336
Dividends received	442	3,822	4,998
Net gains/losses, listed shares and participations	-6,071	14,300	22,277
Net gains/losses, unlisted shares and participations	1,228	2,912	10,108
Net gains/losses, fixed-income assets	1,476	4,202	3,763
Net gains/losses, derivative instruments	-4,442	-605	-1,783
Net gains/losses, foreign exchange movements	-213	5,755	7,343
Commission expenses	-42	-106	-186
Total operating income	-6,458	31,527	48,856
Operating expenses			
Personnel costs	-63	-66	-149
Other administrative expenses	-45	-45	-90
Total operating expenses	-108	-111	-239
Net Investment Income	-6,566	31,416	48,617

Balance Sheet

SEK m	30 Jun 2020	30 Jun 2019	30 Dec 2019
Assets			
Shares and participations, listed	145,285	130,672	127,072
Shares and participations, unlisted	91,768	87,341	94,433
Bonds and other fixed-income assets	127,490	129,406	131,400
Derivatives	5,357	3,928	4,356
Cash and bank balances	2,197	6,307	9,029
Other assets	1,851	2,698	982
Prepaid expenses and accrued income	874	1,082	805
Total assets	374,822	361,434	368,077
Liabilities			
Derivatives	4,088	746	1,526
Other liabilities	15,716	8,595	746
Deferred income and accrued expenses	25	55	46
Total liabilities	19,829	9,396	2,318
Net assets			
Opening net assets	365,759	323,662	323,662
Net payments to/from the pension system	-4,200	-3,040	-6,520
Net investment income for the year	-6,566	31,416	48,617
Total net assets	354,993	352,038	365,759
Total net assets and liabilities	374,822	361,434	368,077



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