

Annual Report 2020



Contents

Activity report

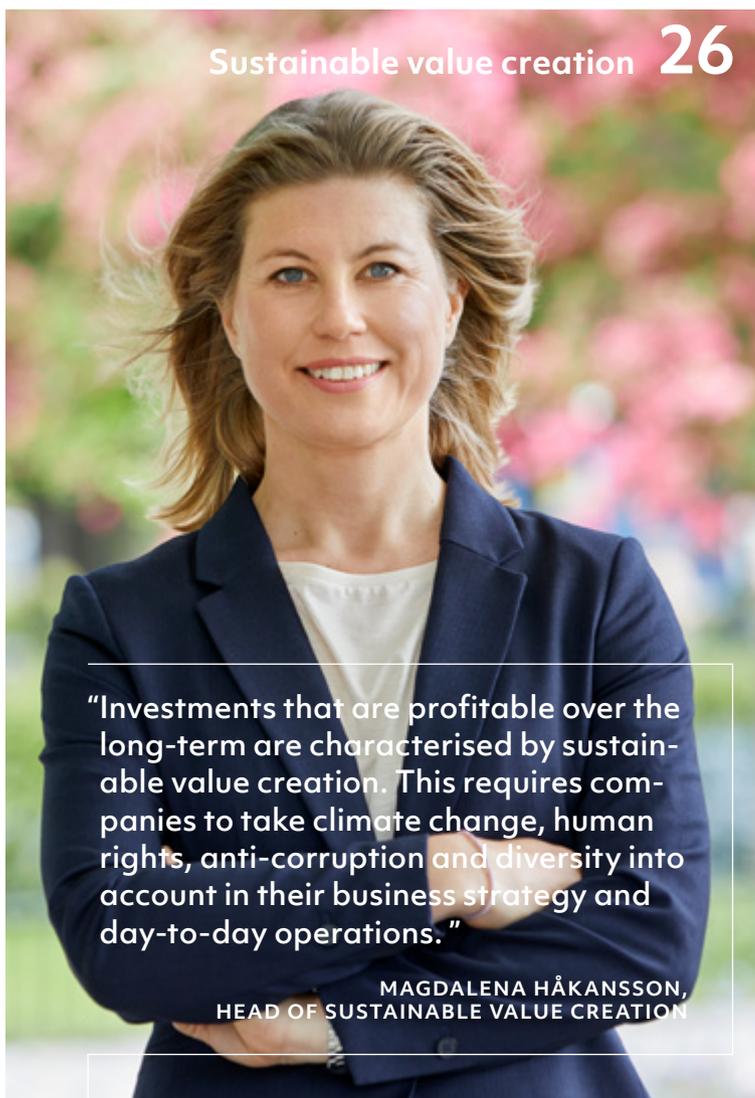
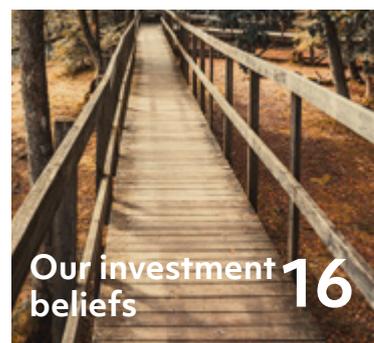
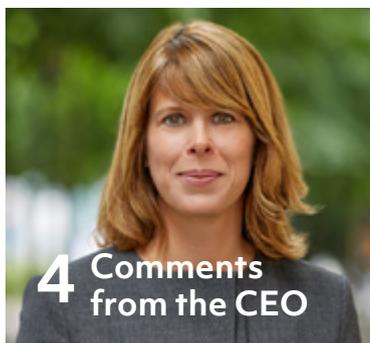
The year in brief	2
Comments from the CEO	4
Our mandate	8
The Swedish national pension system	10
The financial landscape	14
Our investment beliefs	16
– Diversification	18
– Risk premiums	20
– Long-term approach	22
– Inefficient markets	24
– Cost efficiency	25
– Sustainable value creation	26

Sustainability report

Sustainable value creation	26
– Integration	28
– Exclusion	30
– Dedicated investments	31
– Engaged owner	33
– Focus Climate	38
Employees	42

Directors' Report

Ten-Year Overview	48
Financial Statements and Notes	49
The Board of Directors' Statement of Assurance	63
Auditors' Report	64
Risks and risk management	66
Fund Governance Report	68
The Board of Directors' Report on Risk Management	72
Board of Directors	74
Executive Management Team	76
Contact	77



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.

We are firmly anchored in Sweden but have investments worldwide. Our assets of more than SEK 393 billion are distributed across equities, fixed-income securities, real estate, infrastructure, private equity funds and hedge funds.

Our strategy for sustainable value creation shall contribute to meet or exceed the Fund's return target. We promote sustainable development through responsible investments and engaged ownership.

The year in figures

Net investment income for the year amounted to

SEK 34.8_{bn}

The equity portfolio's carbon footprint was 0.87 million tCO₂e. A reduction of

46%

The Fund's administrative expenses totalled

SEK 0.3_{bn}

Total assets amounted to

SEK 392.6_{bn}

on 31 December 2020.

Return after expenses for the year amounted to

9.7%

The average real return after expenses for the past ten-year period was

7.0%



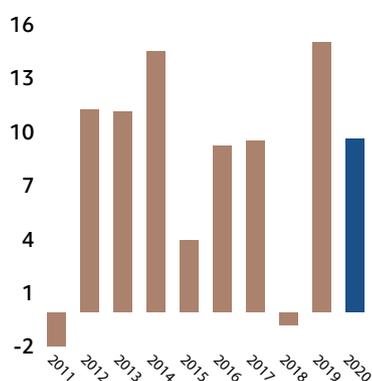
Significant events during the year

- **Kristin Magnusson Bernard** becomes CEO in August.
- **Withdraw from investments in fossil fuels** across all asset classes, which contributes to a positive net investment income and a 46% reduction of our carbon footprint.
- **Modified exposures and work practices** in equities and fixed-income management contribute to positive net investment income.
- The Fund's employees **manage the portfolio very successfully during the pandemic**, and the return after expenses totals 9.7%.
- **The Fund encourages and works with several external asset managers to develop fossil-free investment strategies**, in both systematic strategies, and passive and active strategies.
- Within dedicated investments, **AP-Fund-owned Polhem Infra acquires Telia Carrier** from Telia Company.

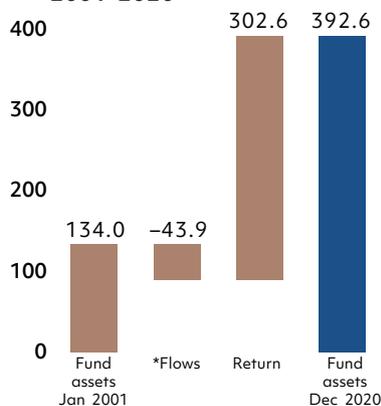
Key ratios

	2020	2019	2018	2017	2016
Return before expenses, %	9.8	15.3	-0.6	9.7	9.5
Expense ratio, %	0.08	0.12	0.14	0.14	0.15
Return after expenses, %	9.7	15.1	-0.7	9.6	9.3
Net investment income after expenses, SEK bn	34.8	48.6	-2.1	29.3	27.0
Net flow to the pension system, SEK bn	-7.9	-6.5	-6.8	-7.4	-6.6
Closing net assets, SEK bn	392.6	365.8	323.7	332.5	310.5
Share of external management, %	23.2	31.4	33.5	32.5	31.8

Return after expenses 2011-2020, %



Net asset performance 2001-2020



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

Our sustainability strategy

-  Integration of sustainability aspects into the investment process
-  Exclusion in line with core values
-  Dedicated investments that promote sustainable development
-  Responsible and active ownership

COMMENTS FROM THE CEO

Great strides forward in a turbulent world

The past year has been unprecedented. The course of the pandemic, together with the measures taken to reduce transmission of the virus and support those affected, determined the development of the world economy and the global financial markets. In challenging conditions we have delivered on our mandate and boosted the pension system by SEK 34.8 billion. We have also made great strides forward regarding sustainability and cost efficiency.

A crisis like no other

Countries, sectors, companies and individuals suffered to a highly varying degree and at different times during the pandemic. The extensive monetary policy relief and record fiscal support packages launched sought to help the hardest hit. The strong recovery on the world's stock exchanges – in particular for digital business models and sustainable investments – marks a sharp contrast to the situation in the service sector and parts of the labour market. The vastly unequal effects of the pandemic will probably affect us for a long time to come.

Changing tack and stability contributed to the results

An increasingly complex landscape with very high uncertainty also placed clearer demands on AP1 and our work practices. For us, the crisis became an opportunity to go to the very core of our mandate: how should we be structured to deliver good returns, sustainability and cost efficiency?

During the storm the experienced sailors and capable forces within the Fund helped us to quickly change tack

to meet the demands placed on us. We established that we needed to become even faster and more flexible in order to leverage our unique advantages as a long-term pension fund in a changeable and chaotic world. We also needed to look at the big picture in our decision making and investing activities, and to always maintain a good reserve of liquid assets and good risk control.

By continuously evaluating the asset management and allocation strategy, based on a situation that was changing rapidly by the day, we could seize any opportunities that arose.

For a period, the Fund took the view that we had taken less financial risk than last year. At the beginning of the year, our aim was to gradually increase the level of risk to be on a par with the comparison index. Efforts to increase risk-taking had partially begun at the start of the crisis, which meant that we entered into it with low risk in relation to the comparison index but absolute exposure to the market. This resulted in a loss of value in the portfolio in connection with the downturn in the markets, but also an opportunity to increase our risk-taking on, for example, the equity market.

By taking a total portfolio perspective and through our rapid reaction in the liquid parts of the portfolio, we can also continue to have the desired level of exposure to our very long-term undertakings, such as infrastructure investments and real estate. As a long-term, stable owner we facilitate decade-long change and development projects, which have given us good return opportunities and good risk diversification in the portfolio.

A strong contribution to the pension system in challenging conditions

Net investment income amounted to SEK 34.8 billion, and this year we have continued to deliver a good return on the capital entrusted to us by the Swedish pensioners of today and tomorrow. In 2020, AP1 transferred SEK 7.9 billion to the income pension system, and on 31 December 2020, total managed capital was SEK 392.6 billion. All in all, we could deliver a return of 9.7 per cent, which once again exceeded our target of 3 per cent real return over rolling ten-year periods, with an average return of 7.0 per cent over the past ten years. The majority of the active income contribution has come from equities, global interest and credit, and real estate. It is also clear that the Fund's focus on cost efficiency has produced results. Expenses have decreased by SEK 123 million, which means the expense ratio was 0.08 per cent.



“An increasingly complex landscape with high volatility and uncertainty placed clearer demands on our work practices – we needed to be faster, more flexible and look at the big picture in our decision-making.”

A ground-breaking year for the Fund's sustainability work

Our mandate is to deliver a good return through responsible investments and engaged ownership. 2020 turned out to be a ground-breaking year for our sustainability work. Through the Board's decision to withdraw from investments in companies with fossil-fuel businesses, we provided for the financial risk that a future shift in line with the Paris Agreement could entail for the Fund. The decision was made following a long-term process to identify and analyse how climate risks can affect the wider world and thereby investments. The implementation of the decision has contributed to a significant reduction of the Fund's carbon footprint.

We believe that companies and countries that use fossil fuels will need to make a major transition moving forward, and we are therefore focusing our energies on this aspect in our investing activities going forward. One central element of our sustainability strategy is ensuring that sustainability aspects are integrated into every part of the Fund's management, across all asset classes and in all investment decisions. All of our asset management teams have therefore further develop sustainability aspects in their mandates during the year, which has resulted in new smart beta strategies in our own management, for example.

Together with external asset managers we have also developed brand

new fossil-free investment strategies with a broader ESG profile, which create opportunities to direct capital towards sustainable companies. The new strategies encompass passive, active and systematic strategies. By drawing on our strength as a large investor, we can place demands on fund managers to develop sustainable management models. The collaboration with external fund managers also has a multiplier effect on our own investments in terms of influence, since they are open to other investors.

New targets

Although we have made great strides in the area of sustainability during the year, we are not resting on our laurels.



“We manage assets for the Swedish people, a role we take extremely seriously. By being a responsible investor with an active advocacy agenda, AP1 contributes to the transition to a sustainable society and creates good returns.”

We have decided on a new interim target of halving the carbon footprint of our portfolio by 2030, as part of the objective of making our entire portfolio carbon-neutral by 2050.

During the year we have also developed our methods for measuring and monitoring the carbon footprint of our investments in accordance with our belief that what gets measured gets done. However, measuring and pricing emissions transparently and accurately is largely a question for the whole investor collective. We believe that a combination of industry agreements and regulations will be necessary.

It will be an important goal for the Fund to continue to pursue so as to ensure that companies report in

accordance with the guidelines issued by the Task Force on Climate-related Financial Disclosures (TCFD). In good partnerships with other investors we also drive initiatives such as Climate Action 100+, which aims to influence the companies that account for the largest emissions to transition their operations in line with the Paris Agreement.

We are also able to promote sustainability through what we call dedicated investments. The focus here is on investments that contribute to major sustainability effects in relation to the capital invested, and that also meet the Fund's overarching return target.

Dedicated investments is an area where the Fund sees especially good

impact opportunities, and we are therefore increasing our ambitions in several asset classes such as private equity, infrastructure, and green and social bonds.

Our responsibility to influence – in Sweden and globally

I would also like to highlight our active ownership, where as a major owner we take great responsibility by being involved in our Swedish portfolio companies. During the year we have pursued issues relating to remuneration and gender equality on boards, by working on 11 nomination committees and by voting at all 89 shareholders' general meetings of Swedish companies.

Since we have a global portfolio, we also have opportunities to have an influence beyond the borders of Sweden. We do this by voting at more than 800 shareholders' general meetings.

To have as great an influence as possible, we like to team up with other parties. Through the Council on Ethics of the Swedish National Pension (AP) Funds, which represents the common interests of the First, Second, Third and Fourth AP Funds, we have taken action on a number of prioritised issues. One tangible example is how the Council, together with other global investors, worked for improved safety in mining companies' tailings dams. This resulted in a global safety standard for tailings dams and greater transparency about their safety through the setting up of a public database. The initiative was recognised by the Stewardship Project of the Year accolade, which is awarded by PRI, a UN-backed network of investors. The Council has also worked pro-actively against deforestation in the Amazon and has clarified expectations on tech companies regarding human rights.

Outlook for 2021

Looking ahead, we see continued uncertainty and complexity in the wider world and market environment. Even after extensive vaccination roll-outs, for some parts of the economy and labour market the recovery will be quite slow. The pandemic has also accelerated existing structural changes. The division of roles between monetary

policy and fiscal policy is increasingly under discussion. We are likely to see continued geopolitical tensions and discussions on trade agreements. Digitalisation has sped up, but so has the focus on the competition aspects linked to the dominant market positions held by a small number of companies. How these issues play out is of crucial importance to trade, industry and markets.

Focus on climate change

Climate change will remain in focus, not least because several of the world's largest countries have adopted their own targets on climate neutrality, or are renewing their support for the Paris Agreement. As a long-term investor, the year 2050 is within our investment horizon. Further information on which political instruments will be used to achieve the climate targets will enable the market to price carbon emissions more accurately, and thereby have major individual effects on companies' returns. We also note that the integration of sustainability aspects has varied from asset class to asset class. The bond market, which is crucially important as a source of financing has, for example, lagged behind the equity market but has recently made progress. We are continuing to actively increase the integration of sustainability aspects in our fixed-income portfolios, but we are also carefully monitoring market developments and, for example, EU initiatives in this area.

Major opportunities ahead

Although we see an uncertain future ahead, we feel confident in our mandate. Together with the Board, during the year we have begun to establish a risk appetite framework in all of the dimensions we deem relevant to us as a national pension fund. Discussing in advance how to balance different risks makes it clear to us in the operation how to navigate an uncertain environment, and I think it is also important for the Swedish people to have confidence in our accountability. We manage assets for the Swedish people, and this places special demands on how we act in order to be trusted.

Finally, I would like to thank all of the Fund's employees who, showing great dedication during an intensive and challenging year, have identified new paths forward and successfully fulfilled our mandate – a mandate that is important to society. I would also like to extend a special thank you to Teresa Isele, who in her capacity as Acting CEO has led the organisation with great consideration and enthusiasm. We wish you the best of success in your exciting new role.

I look forward to 2021 with confidence.

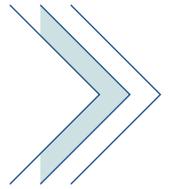
Stockholm, February 2021



Kristin Magnusson Bernard
Chief Executive Officer

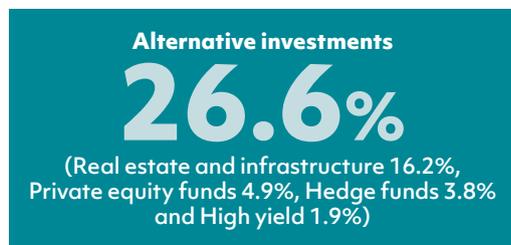
Our mandate

Första AP-fonden's mandate



What we do

On behalf of Swedish Parliament we manage income pension assets of around SEK 393 billion. Our target is a return of 3 per cent after expenses in real terms over rolling ten-year periods, and 4 per cent in real terms over 40 years. We invest sustainably and for the long term, and are an engaged owner.



4

focus areas

1. Develop asset management
2. Long-term approach in everything we do
3. Streamlining and automation
4. Strengthen and develop personnel

The AP Funds' common core values

Democracy

To serve the public good and maintain the public's trust.

Legality

To comply with rules and laws, and to take into account the international conventions and international agreements backed by Sweden. Not to have trade policy or economic policy objectives.

Objectivity

To handle conflicts of interest systematically and transparently. To promote a culture free from corruption.

In an exemplary way, to manage pension capital for current and future pensioners, so as to deliver long-term high returns.

How we work

- A well-considered investment strategy
- Efficient investment processes
- Carefully balanced risk control
- Talented, competent personnel
- Active ownership
- Sustainability, an integral part of our operation

6

Our six investment beliefs

read more on pages 18–26.

Our sustainability strategy

read more on pages 26–41.

66

Dedicated, competent personnel

Value created in 2020

SEK **34.8** bn
net investment income 2020

7.0%
average real return after expenses in the past ten years

SEK **7.9** bn
was paid into the pension system in 2020

Transparency

To be characterised by openness, with objective information.

Respect

Everyone shall be treated with respect, both internally and in relations with the wider world.

Efficiency and good service

The operation shall be run cost-effectively. Service to the public is a part of the mandate.

The foundation of the Swedish national pension system

Sweden's national pension system is designed to be stable and reliable. The Swedish National Pension Funds (AP Funds) play an important part in balancing and helping to ensure that all generations are treated equally.

Payments to and from the system

Every year 18.5 per cent of pension-qualifying income, i.e. salary and other taxable remuneration up to 7.5 income base amounts, is paid into the national pension system. Sixteen per cent goes to the income pension and 2.5 per cent to the premium pension. Received income pension is used to pay out pension to people who are pensioners in that year. People who work have pension rights that are decided by the contributions they make. Pension rights are adjusted upwards annually by the average wage growth in accordance with the income index.

Incoming premium pension is invested in funds, either in the Seventh AP Fund/AP7 or with private fund companies.

The AP Funds' assets

If more is paid into the income pension system in a year than is needed for that year's pensioners, the surplus goes into the AP Fund's buffer capital. If receipts are not sufficient to pay out pension disbursements in a year, the difference comes out of the AP Funds' buffer capital.

The purpose of the AP Funds is thus to make the pension system more stable and to bridge short-term imbalances over time, primarily due to the demographic composition of pensioners relative to the gainfully employed. The large number of people born in the 1940s have now retired, which is currently creating a deficit in the system. The AP Funds are therefore expected to make net disbursements to the pension system for about 20 years. After that, the AP Funds are expected to once again achieve a net inflow.

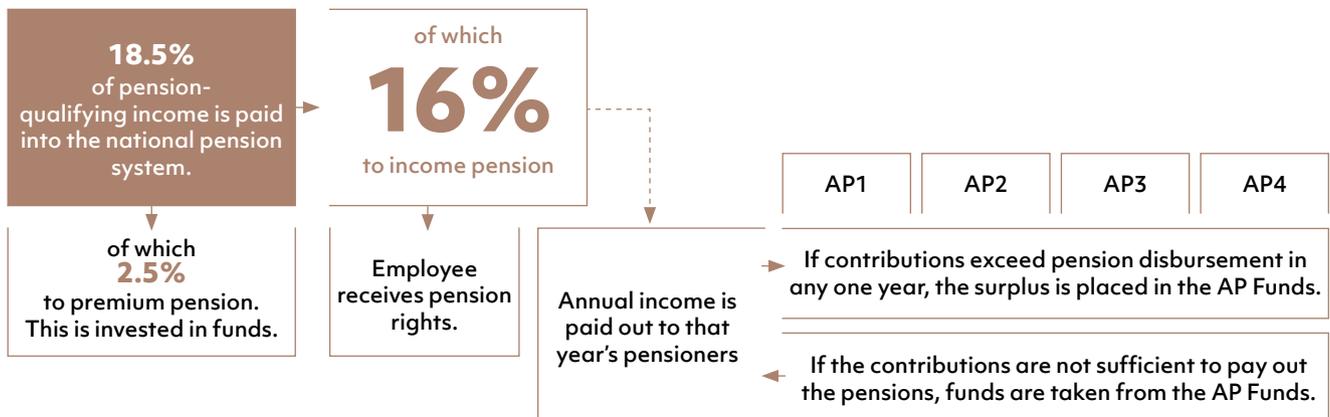
The AP Funds' asset management

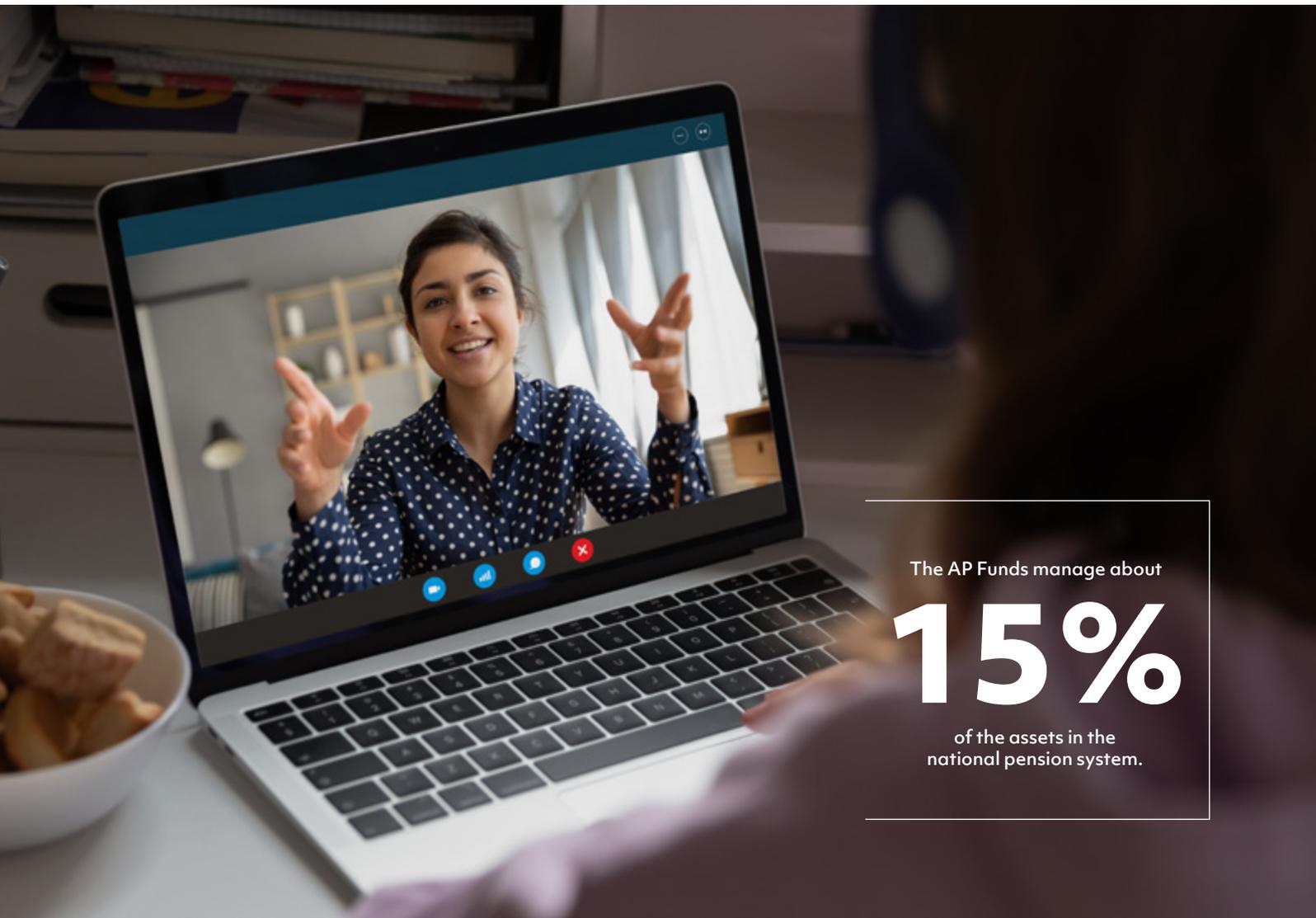
The AP Funds jointly manage approximately 15 per cent of the assets in Sweden's national pension system. Alongside the other AP Funds, AP1 has to manage the income pension assets in the national pension system for current and future pensioners in an exemplary way, to reap the highest possible benefit so that a high return can be generated at a low risk.

A pension system in balance

If the pension system were to become seriously imbalanced financially, i.e. if total liabilities to pensioners exceeded the assets, including the AP Funds' assets, an automatic balancing mechanism or 'brake' is

The Swedish pension system





The AP Funds manage about

15%

of the assets in the national pension system.

activated so that income is adjusted upwards more slowly. Assets comprise future pension contributions including the AP Funds' assets, and liabilities are the value of earned pension rights. Until the system is once again in balance, income pension will be lower as it is not being adjusted upwards using the income index.

The AP Funds help to balance

The return on the AP Funds' assets means that automatic balancing has not been necessary for several years. The balancing mechanism was last activated in 2009 following the economic downturn in the wake of the global financial crisis.

Other pension

In addition to state pension, nine out of ten employees in Sweden have an occupational pension plan as a benefit from their employer. This plan is usually determined under collective agreements, but may also be agreed directly between employer and employee. According to the Swedish Pensions Agency, on average we receive 60–75 per cent of our salary as pension including occupational pension, depending on the number of years in paid work.

Additional state support, known as the guarantee pension, is available for people who have been on low incomes and have no occupational pension. This is taken from the government budget.

Increase in pension age

Swedish Parliament has increased the minimum age for drawing a national pension from 61 to 62 years from 2020.

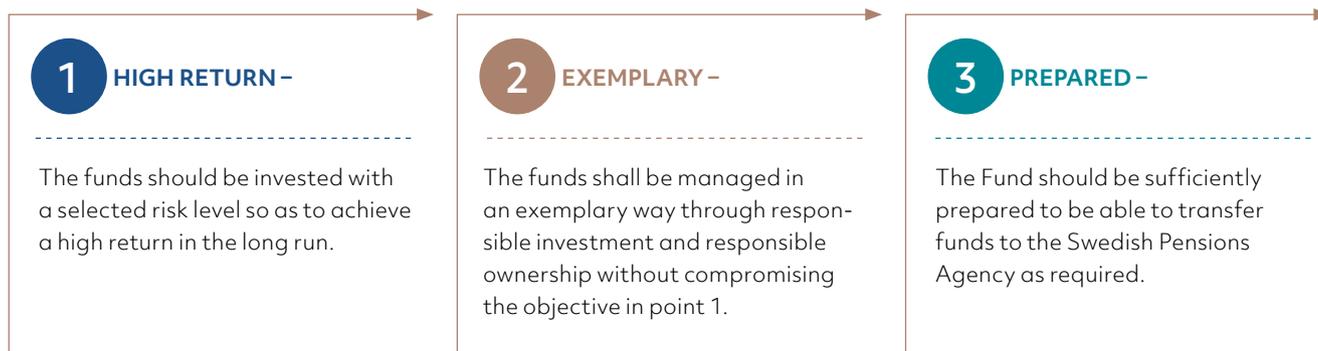
A so-called target age has also been introduced to link the age for the national pension, guarantee pension and housing supplement to average life expectancy. The target age will be established annually and used six years later, and it can only be changed by one year at a time. The target age must also have remained constant for three years before it can be changed. In 2026, when the target age will begin being used, it is likely to be 67 years, which would make the minimum age for drawing a national pension 64 years.

The change in the pension age has major positive effects on the pension system's financial position.

How the AP Funds are governed

The AP Funds are national agencies but by law they must be independent of the Swedish government. For example, the Funds must not be influenced by industrial or economic policies. The Fund's Board is appointed by the Swedish Government. AP1 comes under the Ministry of Finance's area of responsibility.

The AP Funds' operations are regulated through special legislation: the National Pension Insurance Funds Act (2000:192), the AP Funds Act. It is set out in law that the AP Funds must take a long-term approach and have a good foundation for executing its mandate. The law specifies a number of overarching objectives for the operation, such as:



More flexible investment rules for the AP Funds

New investment rules were introduced for the AP Funds in 2019 and 2020. For example, the AP Funds have greater opportunity to invest more in different types of unlisted assets, which may lead to further diversification in the portfolio.

INVESTMENT RULES

Investments may be made in essentially all instruments on the capital market.	The First to Fourth AP Funds should mainly acquire or own liquid assets. The term 'liquid assets' refers to money market instruments or transferable securities that are, or are intended within one year of issue to be, subject to trading in an execution venue or an equivalent marketplace outside the European Economic Area (EEA), etc.	
No less than 20% of the Fund's assets shall be invested in fixed-income securities with low credit and liquidity risk.	No more than 40% of the Fund's assets may be exposed to foreign exchange risk.	No more than 10% of the Fund's assets may be exposed to one issuer or group of connected issuers.
Equities in listed Swedish companies may equate to up to 2% of the total market value.	No more than 10% ownership in any single listed company.	No more than 40% may be invested in illiquid assets.

The investment rules changed in 2020. The Funds may now make indirect investments in bonds and receivables not issued for public trading, make loans to real estate companies and unlisted private equity firms owned by the Funds, and retain a holding of more than 10 per cent of the votes

upon the listing of a real estate company or private equity firm in which an AP Fund owns equities or participations prior to listing. The restriction on voting share was increased from 30 to 35 per cent for equities or other participations in private equity firms.



Mikael Angberg

AP1's return targets

The AP1 Board of Directors establishes the return target and decides the level of financial risk the Fund should take. The Board also specifies on a general level how much capital should be invested in equities and fixed-income securities respectively. It also establishes which deviations from the targets and which asset classes are permitted.

The Fund's medium-term target for the real return after expenses on the total portfolio is 3.0 per cent a year, measured over rolling ten-year periods.

The long-term return target for 40 years is 4 per cent average real annual return after expenses. This is ambitious, but achievable.

The Board's guidelines are broken down into a more detailed division of assets over a ten-year term and tactical management in the shorter term. This is then executed by the investment organisation and formulated as a set of reference values, a benchmark, for each individual asset manager.

The return should be at least

4.0%

in real terms after expenses,
measured over 40 years.

3.0%

in real terms after expenses,
measured over rolling
ten-year periods.



Mats Larsson, Carin Månsson, Magnus Lomakka, Patrik Nyman, Erik Lundström, Kristin Magnusson Bernard, Mikael Angberg and Christian Börjesson.

Trends in the wider world

Various external factors affect the return on the Fund's assets, the principal ones being growth and interest rates. AP1 went into 2020 with a defensive investment strategy. During the 2020 pandemic, we increased the proportion of equities and we are now cautiously optimistic. We believe that the prospects for returns are good in the near future but not so good in the long term.

1

The outbreak of Covid-19 plunged the world economy into the steepest downturn since the Second World War. Demand fell dramatically when restrictions aimed at preventing the spread of the virus also restricted opportunities and willingness for consumption and investment. At the same time the supply side was heavily disrupted, as value chains were broken and many people were unable to go to work.



2

Massive stimulus measures. The response from central banks and ministries of finance around the world was therefore extensive. Interest rates were reduced where there was scope to do so, purchases of assets were made at a level many times greater than after the financial crisis in 2008, and the fiscal programmes exceeded expectations, in terms of both scope and speed.



3

Vaccines. The medical science community dropped everything and swiftly began work to develop vaccines against Covid-19. It usually takes several years to develop a vaccine, but the concerted effort meant that effective vaccines could quickly be produced.

4

Undue pessimism about the future. In the immediate wake of shutting down the economies, the forecasts for future macroeconomic development were gloomy to say the least. A depression with 25 per cent unemployment was often cited as a possible outcome. However, this has not materialised and instead the massive fiscal and monetary stimulus measures resulted in surprisingly positive macroeconomic development, even though the decline remains far-reaching.

The US election resulted in prolonged tension and Biden was finally declared the victor. Irrespective of who had won, extensive fiscal stimulus measures were on the cards, which is the primary factor for a continued strong recovery. The Democrats' victory, however, will likely entail a change in environmental policy and geopolitical frictions. The US is once again on board with the fight against global warming.

5



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The effects of the pandemic will, however, be long lasting. Fiscal policy has shouldered great responsibility for short-term economic stimulus measures, while the central banks' measures have been of a more long-term nature. The consequences are still difficult to foresee, but the strategy is expected to continue after the acute recovery phase, provided that consumer price rises are modest. Furthermore many central banks, spearheaded by the Federal Reserve, have indicated either directly or indirectly that they are willing to allow inflation to go above the target to compensate for previously lower inflation. Deeply negative real interest rates are probably here to stay, which in the short term makes it easier to finance the sharply rising level of indebtedness, but in the long term poses a clear inflation risk. For the time being, however, the continued extensive stimulus measures, together with the central banks' increased tolerance for inflation, are primarily fertile ground for fast-growing asset prices. The return opportunities may therefore be fairly good in a shorter-term perspective, but the long-term outlook is far more modest.





Our INVESTMENT BELIEFS

Investment beliefs guide the way

AP1's investment beliefs set out frameworks for how the portfolio should be composed. The beliefs are applied both in assessing new investments and in evaluating existing ones.

Diversification

We invest worldwide and in many different types of asset. The aim is to spread the risks and create several options for generating returns. Read more on page 18.

Long-term approach

A long-term approach creates more opportunities to take risks, and thereby create returns. The risks are balanced over time. Read more on page 22.

Cost efficiency

AP1 should act on a commercial basis and have low costs in relation to the income it makes. Read more on page 25.

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Risk premiums

Risk-taking on the financial markets is assumed to yield a positive return over time. The risk premium is the extra return earned in relation to risk-free interest. Read more on page 20.

Inefficient markets

An information edge and meticulous analysis provide opportunities for higher returns on less well-analysed markets. Read more on page 24.

Sustainable value creation

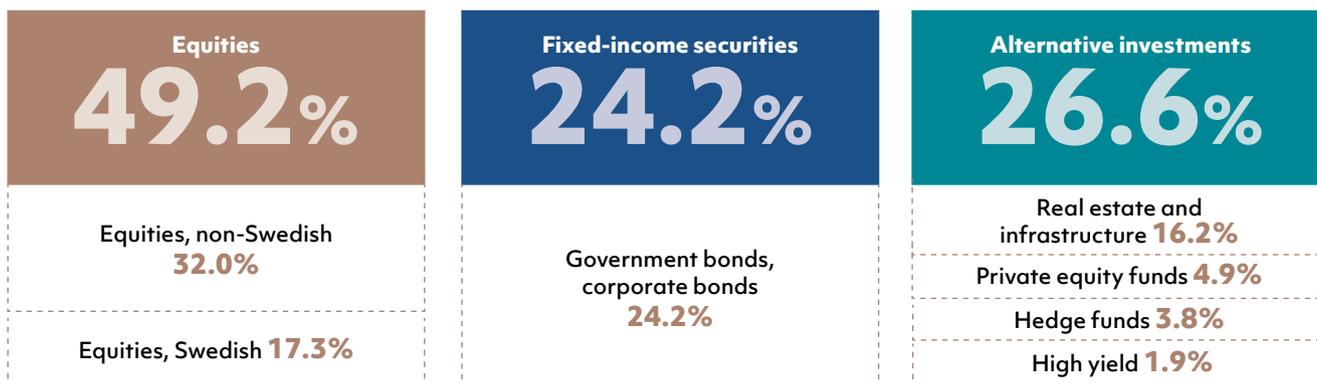
Focus on sustainable value creation makes it possible to increase returns and reduce financial risk in the long term. Read more on page 26.

We strive to be a world-class pension fund and perform on the same level as leading global asset managers.

INVESTMENT BELIEF

Diversification

We invest worldwide and in many different types of asset. The aim is to spread the risks while also creating several options for generating returns.



WE HAVE A BROAD GLOBAL ASSET PORTFOLIO CONSISTING of equities and fixed-income securities along with alternative investments such as real estate, infrastructure, private equity funds and hedge funds. Various investment aspects and market risks are weighed against each other, based on the investment rules set out in the AP Funds Act and the overall allocation decided by the Board. New, more flexible investment rules were introduced for the AP Funds in 2019 and 2020.

The asset classes are affected in varying ways by changes in the market and wider world. We aim to take market risks to achieve our return target and spread risk through diversification. The liquidity of the different asset classes – i.e. the ability to sell them quickly to take advantage of new investment opportunities or make disbursements into the pension system – varies.

Our asset managers strive actively to achieve a better result than would be possible by simply following the Board's general investment allocation between different asset classes. In our day-to-day asset management we work with a wide range of asset classes of different character, and on different markets with varying time horizons.

Equities entail taking risk

During the year, the proportion of equities has increased. Investing in equities entails a risk, but it also enables high returns. The Fund's equities portfolio includes a selection of companies in Sweden and developed foreign markets, primarily the US and Europe, but also some in Asia. We also invest in equities on emerging markets. We mainly take a long-term outlook on equities. All Swedish equities and the majority in Europe and the US are managed internally.

Equities on emerging markets are managed in collaboration with selected external business partners.

Bonds reduce the risk

Fixed-income securities lower the risk in the total portfolio, while at the same time they usually contribute to the Fund's return. After a decline spanning almost three decades, we think that global market rates have reached the end of the road, which is why the future outlook for significant return contributions to the total portfolio looks limited.

The foundation of the Fund's fixed-income securities is nominal and real government bonds with a high credit rating and high liquidity, supplemented

by mortgage bonds and corporate bonds with a limited risk level. The vast majority of the holdings are foreign. Apart from balancing the risk in the total portfolio, the fixed-income portfolio is a key component of the Fund's liquidity management as these bonds can, relative to other assets, readily be converted into means of payment. The proportion of fixed-income securities in the Fund has decreased during the year as a result of a larger risk appetite for the Fund.

Alternatives to equities and fixed income

Apart from equities and fixed-income assets, the Fund also spreads its assets across alternative investments:

Real estate and infrastructure

Real estate and infrastructure often provide good protection against inflation in the longer term. We do direct investments in Sweden and invest via private companies and funds abroad. Our long-term approach means that these investments are a good fit for AP1. Our equity portfolio also includes listed real estate equity.



Portfolio management during the pandemic

Private equity

AP1 invests globally in private equity funds and, as a rule, the investments are carried out together with other major investors. Managers of private equity funds invest in unlisted companies, where they serve as active owners with a clear strategic agenda for the company's development. Investments in private equity funds as an asset class require a long-term approach because most portfolio company strategies take at least five to seven years to materialise. In 2020, the Fund made a total of 10 investments in private equity funds, four of which were venture capital investments. Despite Covid-19 and slightly weaker earnings development in spring, overall our private equity funds have performed well in 2020.

Hedge funds and alternative strategies

The aim of so-called idiosyncratic alternative investments is to add diversification to the Fund and improve the Fund's risk-adjusted return over time. This means investments in strategies that cannot be replicated for the Fund and have a low correlation with conventional and alternative risk premiums alike. The portfolio includes both liquid hedge fund strategies and illiquid credit strategies.

Foreign exchange

We also diversify the asset portfolio by not hedging all investments in foreign securities. As of 31 December, 23.2 per cent (25.7) of the portfolio was exposed to foreign currencies.

A complete list of AP1's listed and unlisted shareholdings at year-end is available on our website, www.ap1.se.

In normal circumstances stock exchanges fall when monetary policy is too tight relative to the economy or due to stress in the financial system, such as in 2008. During the pandemic, everything was different. Instead, the policy was to shut down the economy to save lives.

There was no prior experience of this on which portfolio managers could draw. Furthermore, on some securities markets in March, liquidity was so weak that this itself created a negative spiral.

Everything happened incredibly quickly.

"In retrospect, we can see that the downturn didn't turn out to be unusually severe. What was exceptional was how quickly everything happened, both downwards and then upwards when monetary and fiscal policy responded in record time with almost improbable stimulus measures," says analyst Magnus Lomakka.

"We went into the crisis with relatively defensive positioning. We were a long way into a stock exchange cycle that began in 2009, and the effects of the tax cuts introduced by Donald Trump had begun to ebb away. This meant we were well positioned for a crisis, this time in the form of a pandemic.

We followed our game plan

"Naturally we had to act with incomplete information, but one thing we were sure of: if something AP1 wants to own becomes cheaper, it is rea-

sonable to buy more of it. The Fund's allocation group met daily. We had a game plan from before, where we had planned how we would respond if the stock exchange fell sharply. On the whole we followed our plan," says Mats Larsson, Head of Equities.

"We bought quite a lot of equities when the stock exchange fell by 15 per cent and 25 per cent. We skipped buying equities at minus 30 per cent and then bought equities in Europe at minus 35 per cent. This gave us a very positive outcome and we could exit the 'crash' with a higher allocation to equities than in a long time," says Mats.

Psychologically hard to trade with the bleak outlook

"Apart from it being psychologically hard to buy when everything looked so bleak, we also had to manage the assets that couldn't be traded during a crisis, while ensuring that we abided by the AP Funds Act's investment rules," says Carin Månsson, Head of Exposure Management.

"When a stock exchange goes down, the derivatives purchased to increase equity exposure and those held for hedging usually move in the wrong direction, which means you need to pledge more collateral. This may mean you have to sell equities at the bottom of the market, which is very negative. However, we managed to balance this risk well. Generally speaking, it feels as though we did more right than wrong, and ultimately we have to be happy with that," Mats concludes.

INVESTMENT BELIEF

Risk premiums

Risk-taking on the financial markets is assumed to yield a positive return over time.

THE RISK PREMIUM is the additional return obtained in relation to the risk-free interest for the investor that takes a market risk. The Fund has to take market risks in order to achieve a return. In each situation we choose what we consider to be the most effective risk premiums in order to achieve our objectives.

AP1's potential to benefit from risk premiums is closely linked to the Fund's long-term approach. There is no guarantee that the Fund will be paid for its risk premiums every year, but over time the Fund expects to be paid more on average.

The 2020 pandemic surprised the market

Despite the pandemic, 2020 was a very good year for AP1. Return after expenses was 9.7 per cent for the year and the average real return was 7.0 per cent for the period 2011–2020, compared to our target of 3.0 per cent.

Our investment strategy

AP1 went into 2020 with a slightly defensive position. We had progressively decreased the risk appetite and the proportion of equities based on our view of the wider world. With the pandemic, the world's share prices generally fell and consequently we increased the proportion of equities in the portfolio. Read more about our work on reallocating the portfolio during the pandemic on page 19. We believe in a positive return from taking risk, but at somewhat lower levels than in past years. Read more about our view of the wider world on page 15.

By pursuing systematic asset management (smart beta) to a greater extent, we are clearly prioritising risk premiums and are able to efficiently make the most of equity premiums by selecting equities based on different criteria. Read more about how we used systematic asset management to reinvest capital after withdrawing investments from companies with fossil-based businesses, on the next page.

The equity market

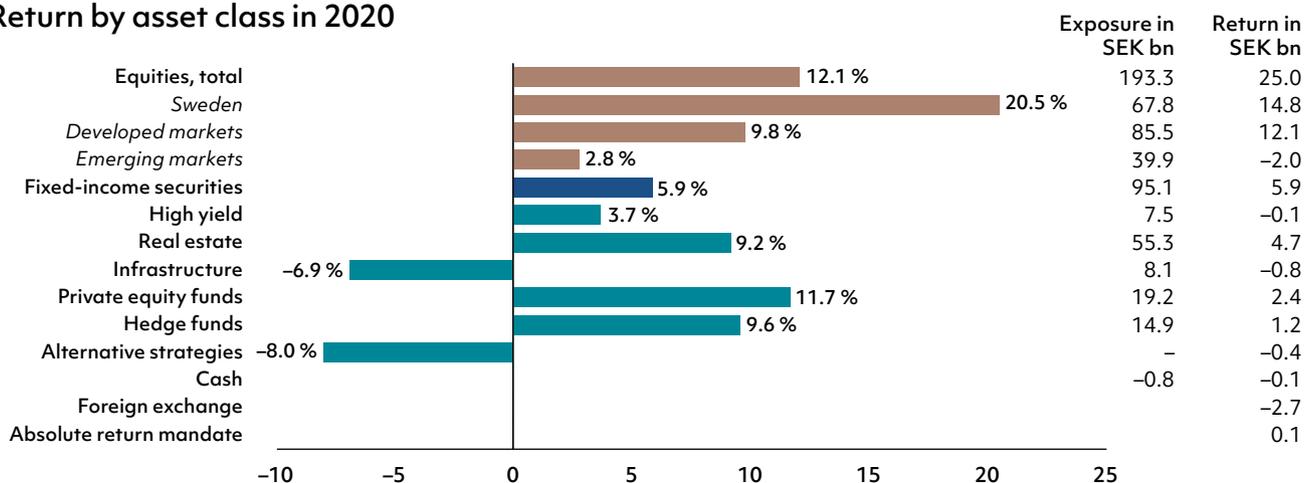
At the beginning of the year the equity market continued its strong trend from 2019. The spread of Covid-19 in China had already been discussed, but few predicted the global consequences. When the virus rapidly spread to Europe, the stock exchanges fell very quickly. Thanks to a major, record-quick monetary and fiscal policy response, the upturn was equally robust. We managed to use the position relatively well and also benefited from our regional choices.

Alternative investments

During the year, a review of alternative investments was initiated in several areas, with the aim of ensuring that these holdings complement the Fund's other assets even more effectively, primarily equities and fixed-income securities. Our assets in private equity funds have continued to produce an excellent return.

We have continued to see positive development in tangible assets, but not to the same extent as last year.

Return by asset class in 2020



Systematic portfolio management in focus when withdrawing from investments in fossil fuel companies



Dmytro Sheludchenko, Thomas Ekström
Ludvig Lamm and Mikael Angberg.

In March 2020, AP1 announced that it would be pulling out of all investments in companies with fossil-based business. The orientation decision, which was made back in December 2019, followed a lengthy impact analysis where we identified and analysed how climate risks can affect the wider world and AP1's investments. The Fund believes 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 decision to stop fossil investment is a move in reducing the Fund's climate exposure.

After the decision was made, extensive work began to sell off all fossil holdings in all asset classes. Our internal shareholding was sold off with good results before the pandemic struck with full force. The team working on systematic portfolio management – Dmytro Sheludchenko, Thomas Ekström and Ludvig Lamm – was responsible for investing the capital in other companies with the same risk appetite, and in companies with a high ESG (Environment, Social, Governance) ranking and low carbon footprint.

Systematic portfolio management is governed by clear rules

"Systematic portfolio management, also known as smart beta, can be simply described as a form of management governed by a series of clear rules that drive investment decisions. An index fund offers the same return as the market (beta), where the market value of the equity determines its weight in the index. Smart beta funds select equities based on slightly different criteria to market value, such as ESG criteria and low volatility. Systematic portfolio management is often described as a cross between active management and index funds," says Thomas.

We deselect companies with a high sustainability risk

"We are striving to prioritise the right companies and deselect companies where we consider the sustainability risks to be too high, which could have a negative impact on the future long-term return," says Dmytro.

The aim is to translate the Fund's sustainability beliefs into a quantitative approach where we improve the portfolio's resilience to sustainability-related risks, while maintaining the return profile and low volatility, a so-called sustainability filter. The filter reduces the portfolio's exposure to companies with higher ESG risks relative to other companies in the same sector.

Our goals are ambitious

Furthermore, a CO₂ filter was introduced to reduce the portfolio's carbon footprint and climate risk, and thus help to reduce financial risk. This also helps ensure that our investments are in line with the Paris Agreement in the long term. The aim of the CO₂ filter is to reduce exposure to companies with higher CO₂ emissions, and that fall short in their work to reduce emissions.

"Our goal is for the portfolio to be carbon neutral by 2050, with an interim goal of halving our carbon footprint by 2030. We consider it extremely important to be able to invest in the companies that set goals and reduce their carbon footprint in line with the Paris Agreement," says Ludvig.

"We are now aiming even higher with our systematic strategy ambitions. Although the current method has been extremely successful, there's nothing to say we can't aim even higher – quite the contrary, in fact. We hope to say more about this in the next annual report," concludes Mikael Angberg, Chief Investment Officer at AP1.

INVESTMENT BELIEF

Long-term approach

Taking a long-term approach creates opportunities for taking risks. This in turn creates returns, since the risks are balanced over time.

THE LONG-TERM INVESTMENT APPROACH gives AP1 benefits over other investors. It opens up options and enables us to take a long-term approach in our investment beliefs. Even though the focus is long term, naturally this does not mean that the Fund foregoes tactically interesting investments in the short term.

Stable strategies open up opportunities

Our long-term approach means that unlike many other investors, we can ride out short-term volatility. In turn, this means we can have a higher risk tolerance. A higher level of risk gives us more opportunities for a higher return.

Investments in real estate

Our long-term perspective enables us to capitalise on competitive advantages and invest in assets that are not liquid, for example. A significant proportion of our illiquid holdings comprise

investments in real estate, which are long term by nature.

The largest real estate holdings are Vasakronan, Willhem and Cityhold, see next page. In addition to these three holdings, which make up the majority of the real estate portfolio, we have a number of smaller real estate investments in Sweden, the rest of Europe and Asia. Over time the Fund's investments in real estate have generated a good return, partly through continuous rental income and partly through increases in property values, which has meant our real estate holding has gradually grown.

Investments in infrastructure

The least liquid assets include infrastructure, in which ownership is generally very long term. Infrastructure is often publicly regulated and a natural monopoly, which can provide stable, predictable cash flows. In the long term, income follows growth in society. The idea with investments in infrastruc-

ture is not only to earn a high return in relation to risk, but also to contribute to sustainable value creation.

AP1, together with AP3 and AP4, owns the company Polhem Infra, which invests in and manages unlisted infrastructure assets, primarily in Sweden. These assets might include renewable energy production, energy storage, energy distribution and digital infrastructure. In autumn, Polhem Infra acquired the company Telia Carrier, a world-leader in backbone connectivity for data traffic.

We also own 12.5% of the power company Ellevio AB, which owns, runs and develops regional and local power grids and distributes electricity to over 960,000 customers in Sweden via a 77,500-kilometre power grid in Dalarna, Hälsingland, Gästrikland, Värmland, Närke, Bohuslän, Halland and Stockholm. Most of the power grid is in rural areas but the majority of the customers are in Stockholm.



Long-term, sustainable real estate investments

The return on AP1's investments in real estate during the year totalled 9.2 per cent (14.8). In addition to the directly owned companies described below, the asset portfolio was supplemented with fund investments in Asia and Europe. We stipulate that all holdings in our real estate portfolio must report in accordance with GRESB (Global Real Estate Sustainability Benchmark) and steadily improve their GRESB score.

CITYHOLD OFFICE PARTNERSHIP (VIA CHAPONE S.Å.R.L)

Holding: 25 per cent

Cityhold's real estate portfolio is valued at approximately EUR 2.5 billion, and consists of high-quality office properties in excellent locations in London, Paris, Munich, Amsterdam and Hamburg. Nuveen Real Estate manages the company.

VASAKRONAN

Holding: 25 per cent

Vasakronan is Sweden's biggest real estate company with 171 commercial properties. Vasakronan owns and manages office and retail properties with central locations in Stockholm, Gothenburg, Malmö and Uppsala. The market value of the real estate is SEK 159 billion. Vasakronan is highly ambitious regarding sustainability and is one of the world's highest ranking real estate companies for sustainability.

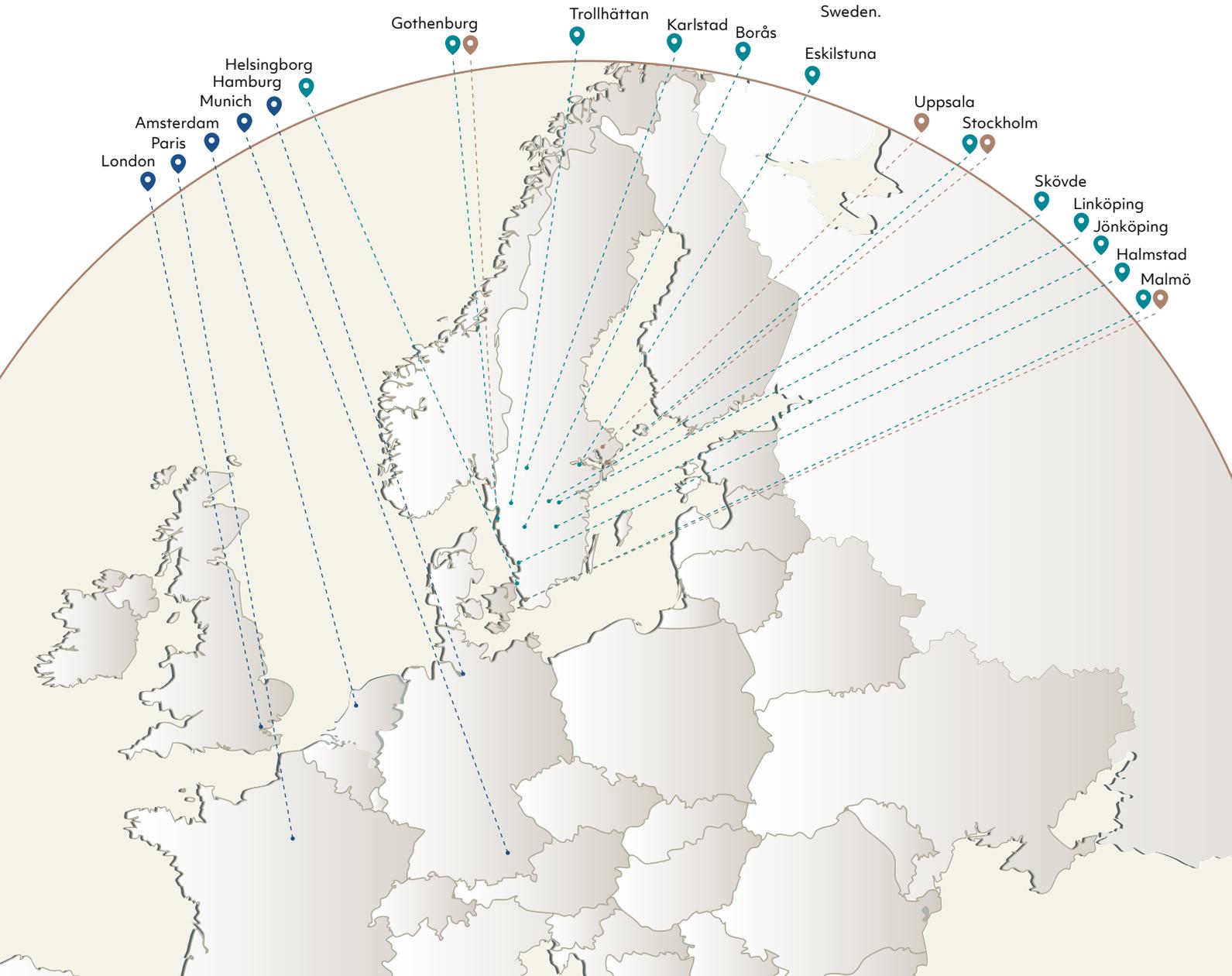
WILLHEM

Holding: 100 per cent

Willhem owns rental properties in growth areas across Sweden. In total, it has around 26,000 apartments in Borås, Eskilstuna, Gothenburg, Halmstad, Helsingborg, Jönköping, Karlstad, Linköping, Malmö, Skövde, Stockholm, Trollhättan and Västerås.

Other major real estate associated companies in Sweden

- **Aros Bostad**, which provides exposure to the development of tenant-owner apartments in the Stockholm region.
- **Secure**, with a focus on properties with supermarket ICA as tenant across the whole of Sweden.



INVESTMENT BELIEF

Inefficient markets

An information edge and meticulous analysis provide opportunities for higher returns on less well-analysed markets.

IF A MARKET were completely efficient, all the available information and the collective analysis of all investors would reflect the correct price of an asset in a rational way. This is based on the assumption that all investors are rational and have all the information. The finance markets do not always work in this way, although large parts of them are well analysed. Through active asset management on well-selected, less analysed markets, AP1 can gain an analytical edge. We also reallocate between asset classes if we think that assets have been incorrectly priced.

Swedish companies

We often have a certain analytical edge over foreign investors when it comes to Swedish companies. This is one of the reasons why we have invested more heavily in Sweden than required in the AP Funds Act, even though Swedish equity trading represents such a small share of global trading. Another reason is the lower foreign exchange risk.

Small caps

There are also better opportunities to identify gems among small caps. In recent years, we have increased our

exposure to small caps in Sweden, Europe, the US and globally. These investments take place internally and externally via active mandates. Our aim is to continue to increase the proportion of small caps.

During the year we have also increased our internal derivatives capacity, which streamlines active management, for example, in small caps and enables us to take positions that would not otherwise be possible.

Small cap portfolio increased by 71 per cent

SOPHIE LARSÉN is the Portfolio Manager responsible for the Swedish small caps portfolio, which increased by 71 per cent in 2020, 46 percentage points better than the MSCI Sweden Small Cap Index. At year-end, the portfolio had a market value of SEK 16 billion, spread across 29 companies. According to Sophie, there are two explanations for the positive outcome this year.

“We had a good starting point at the beginning of the year. The companies that contributed most to the portfolio are companies that we have owned for several years. We were also quick to position ourselves in spring and bought a lot of shares that we thought had gone down too much, but had good potential in the long term. Typically we are looking for companies with a stable business model and a strong position in a profitable niche. They have a high forecast return, and products or services that genuinely benefit their customers.”

Sophie Larsén



INVESTMENT BELIEF

Cost efficiency

AP1 should act on a commercial basis and have low costs in relation to the income it makes.

RESPONSIBLE MANAGEMENT calls for high cost efficiency and stable costs over time. This is why a cost focus is an integrated approach that permeates all of the Fund's activities. AP1 monitors its costs in several ways to ensure good cost control, such as through an annual budget which provides a good overview. The budget is continuously monitored, which provides the management and Board with valuable information for governance. In addition, an international comparison with similar funds around the world is conducted every year and the fund reports its costs transparently in various reports and other channels of communication. Cost efficiency is also achieved by the AP Funds collaborating in areas outside of investment, such as procurement, new technology and conducting stakeholder dialogue. By collaborating, the Funds utilise their resources more efficiently and benefit from sharing experiences and knowledge.

The Fund's expense ratio (operating expenses and commission expenses) has fallen from 0.15 per cent to 0.08 per cent in the period 2016–2020. In 2020, the Fund continued to decrease

its costs and the Fund's administrative expenses totalled SEK 302 million (424), equalling 0.08 per cent (0.12) of assets under management. The administrative expenses comprise operating expenses and commission expenses. Operating expenses are primarily personnel, IT and premises costs. Commission expenses mainly comprise fees for external managers and custodian fees at banks.

International comparison

Since 2014, cost efficiency has been measured annually by the market-leading Canadian company CEM Benchmarking. All the measurements have shown that AP1 is cost efficient by international comparison. Comparison is made with 19 asset managers with a similar distribution of assets. The aim is to consider differences that may be attributable to different asset classes having different levels of cost demand.

Internal versus external management

We are striving, where possible, to manage assets internally and we are gradually increasing internalisation, partly because the costs are lower.

On 31 December 2020, we managed 77.4 per cent (68.6) of the assets internally. Internal asset management also increases the control we have over our investments and makes us more flexible. Increased internal asset management often entails a slight increase in operating expenses, but this is offset by lower commission expenses. Internal asset management requires the right resources and internal expertise, which is why the internalisation process is not always as fast as we would like.

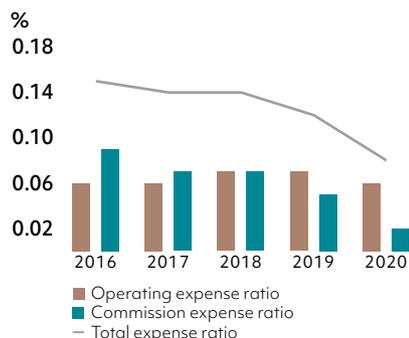
Sometimes external asset management is more efficient, such as on emerging markets. Then we focus on minimising the costs for a chosen asset management strategy, investment style, quality, analytical methodology, sustainability and historical return.

Increased systematic portfolio management

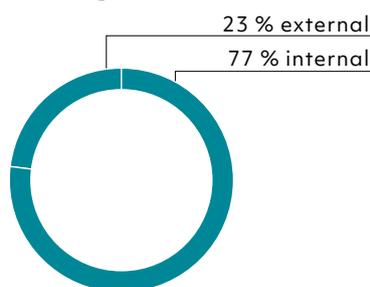
At the end of 2019, we decided to increase the proportion of systematic, quantitative rule-based investments, while reducing the proportion of active fundamental asset management. Systematic asset management, which is scalable and cost effective, is generated by the models we create based on our strategies. The restructuring in the portfolio has affected the organisational structure and work approach, and there was a management reorganisation in late 2019 which had an impact in 2020.

During the year we have also increased our internal derivatives capacity. For example, we have developed procedures for CDS (credit default swaps), a cost-effective and flexible way to create exposure that is good in terms of liquidity.

Development of administrative expenses 2016-2020



Internal and external management



INVESTMENT BELIEF

Sustainable value creation

We are convinced that we are best placed to deliver a good risk-adjusted return to current and future pensioners by considering sustainability aspects in our investment decisions.

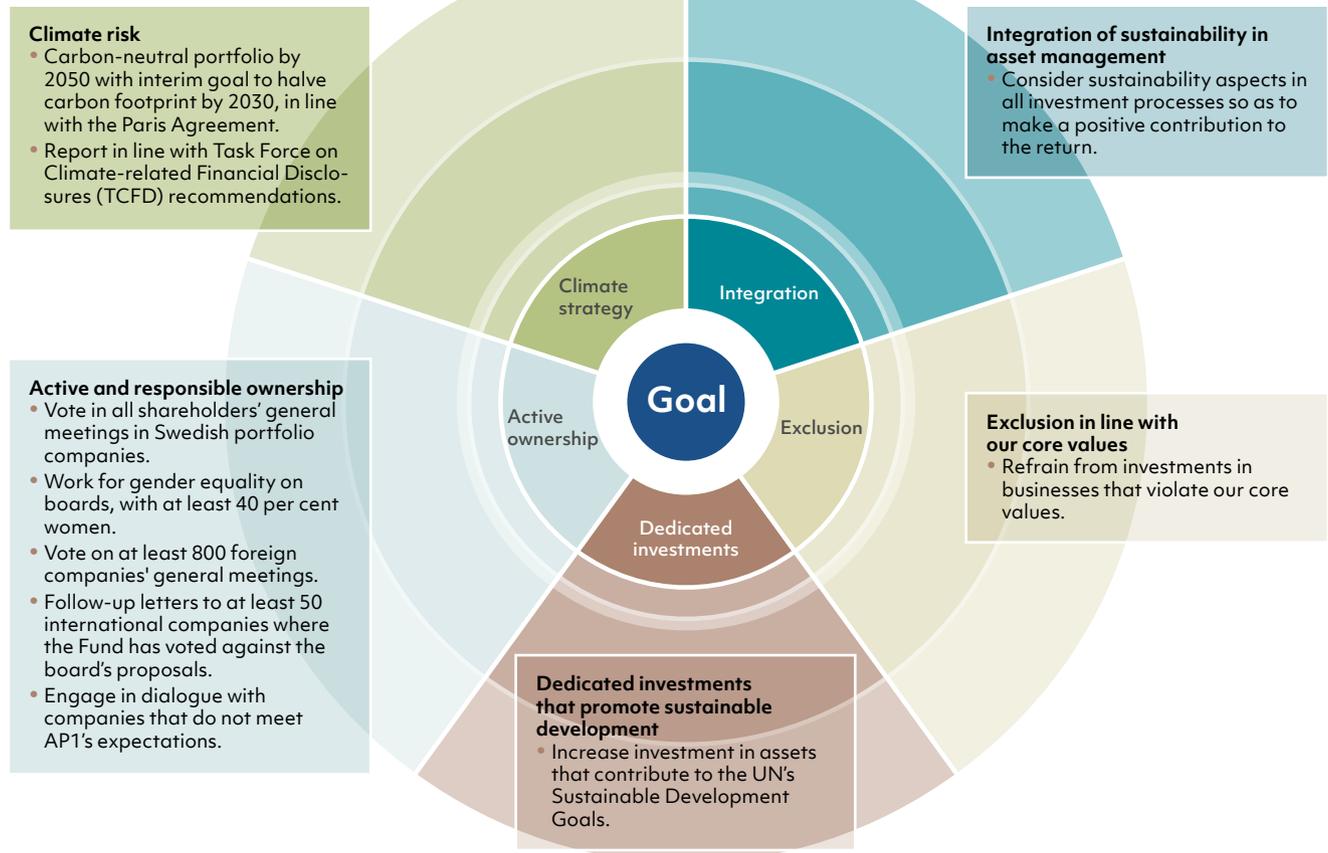
AP1 SHALL promote sustainable value creation through responsible investments and engaged ownership without compromising returns. By "sustainable value creation" we mean businesses that are profitable in the long run and integrate, for example, environmental and climate issues, human rights, social issues, anti-corruption and tax issues in the companies' business strategy and day-to-day operations. Managing these risks also requires companies to have sound corporate governance.

One key aspect of AP1's sustainability work is to set clear expectations on the businesses in which we invest, and to pursue active ownership that helps companies promote sustainable development.

Our mandate

AP1's operation is based on our mandate from Swedish Parliament through the AP Funds Act, which states that asset management should be conducted in an exemplary way through responsible investment and responsible ownership. Special emphasis shall be given to how sustainable development can be promoted without compromising on the overall objective regarding return and risk.

Sustainability goals



Sustainability strategy

The sustainability strategy sets out the Fund's sustainability work and how it should be conducted. Our strategy for sustainable value creation encompasses all asset classes. In our sustainability analysis we identify opportunities and risks that could affect the company's long-term value creation throughout its' value chain, from supplier to end customer.

In 2020, the Fund's various asset management teams worked further to implement the sustainability strategy in their mandates by using the various

tools of integration, exclusion, dedicated investments and active ownership. Since climate change and its consequences are so important, from both

a risk and a sustainability perspective, the Board has also designated climate change a special focus area.



Integration of sustainability aspects into the investment process.....page 28

We believe that well-managed companies have greater potential than others to generate a good return at a low risk over time. Considering sustainability aspects in the investment process enhances our due diligence and puts us in a better position to generate returns at a well-balanced level of risk.



Exclusion in line with core values.....page 30

We refrain from investments in individual companies or sectors that violate our core values.



Dedicated investments that promote sustainable development page 31

We invest in assets that contribute to major sustainability effects in line with the UN's Sustainable Development Goals, and that also meet the Fund's overarching return target.



Active and responsible ownershippage 33

Through engaged, responsible ownership, we influence companies in a positive direction, reduce risks and pursue sustainable development, both in Sweden and internationally.



Focus area Climate page 38

In our opinion, climate change and its knock-on effects are some of the biggest systematic risks to our assets in the long run, and climate risk management is a key component in all parts of the sustainability strategy.

Trust in us is important to us.....page 41

The sustainability report is on pages 26–41.

The next pages in the sustainability report reflect the different elements of the Sustainability Strategy, and provide information on the work and goal attainment in each area for 2020.



Majdi Chammas and Tina Rönholm

SUSTAINABILITY STRATEGY

Integration of sustainability aspects into the investment process

WE ARE CONVINCED that the best way for the Fund to achieve its overarching goal of delivering the best possible return is to consider sustainability aspects in our investment decisions, both in our own asset management and in the externally managed funds in which we invest. To be able to make informed decisions where sustainability issues are consid-

ered as both a risk and an opportunity in the investment process, it is vital to measure, analyse and monitor material sustainability aspects, which requires companies to be transparent.

The way in which sustainability aspects are integrated into the investment process is adapted for each investment strategy, and our asset

managers have direct access to data and analyses from various external suppliers. We have specific guidelines and processes for investing in companies that we deem to have a particularly high sustainability risk and we have been working for a long time on identifying and analysing climate risks in the Fund's management strategies.

Great strides forward 2020 in several asset classes and asset management teams

During the year, all of the asset management teams have continued developing how sustainability are implemented in their respective mandates, starting from the overarching goal of creating a high return in the long run at low costs.

As a result, all of the internally managed equity strategies have integrated sustainability aspects in the company analysis or developed ESG models that are systematically integrated in the investment process. In connection with the decision to withdraw from investing in fossil fuel companies, crucial steps were also taken within internal portfolio management. The unit that works with

quantitative analysis has developed brand new smart beta strategies that select equities based on specific sustainability criteria. This means that the capital released from not investing in fossil fuel companies is invested in fossil-free companies with the same risk appetite, high ESG rankings and good management of their carbon footprint. During the year, a specific ESG analysis has also been developed for Swedish small caps.

Research has been carried out within the management of fixed-income investments, in order to enhance the existing ESG model for the credit portfolio. In addition, work is under way to develop an ESG framework for government bonds, which will result in all fixed-income strategies, managed both internally

and externally, integrating sustainability aspects.

Innovative collaboration increases the impact of sustainable asset management

During the year, we have developed and pursued innovative new investment strategies together with external asset managers, where we have been able to demonstrate that active, systematic and index-linked management can be both fossil-free and have a broader ESG profile, without compromising on the market's risk premium. As these innovative funds are open to other investors, AP1 is enabling the allocation of capital to sustainable companies and drive the transition to a sustainable society.



Goal attainment and significant events in 2020

- Implemented divestment from companies operating in the fossil fuel sector across all asset classes.
- Developed three new smart beta strategies within internal portfolio management, all with the basic criterion that investments must be made in sustainable companies that meet certain demands on managing ESG risks, including climate risks.
- Developed ESG analysis for Swedish small caps
- Developed and pursued the creation of innovative, unique funds together with external asset managers, in active, systematic and more index-linked management.

AP1 in innovative collaborations

AP1 has contributed to the sustainable transition through several collaborative projects during the year:

- The Emerging Markets Future Leaders fossil-free fund was launched together with London-based Somerset Capital Management. The fund will primarily invest in medium-sized companies on emerging markets. The fund also takes other sustainability aspects into account.
- A unique research report showing that it is possible to exclude fossil-fuel companies in systematic portfolio management without

compromising on the market's risk premium, was presented together with the French asset manager Tobam.

- A new fossil-free fund, L&G Emerging Market Equity Future Core Fund, was developed together with UK-based Legal & General Investment Management. The fund links the allocation of capital to clear sustainability requirements on the companies in which the fund invests, and makes it possible to combine passive management on emerging markets with the requirement to be a responsible owner, with the same return profile.

SUSTAINABILITY STRATEGY

Exclusion in line with core values

Based on the AP Funds Act's requirement of exemplary asset management, we choose not to invest in certain industries or companies.

THE FIRST, SECOND, THIRD and Fourth AP Funds have defined common guidelines on which assets capital should not be invested in. When we decide on exclusions in line with our core values, they are mainly related to the international conventions signed by Sweden. We expect the companies we invest in to comply with these conventions and national legislation, and that the business adheres to the UN Global Compact's ten principles for responsible business.

Engagement is important

Dialogue and advocacy represent a key opportunity to contribute to better companies with good return potential in the long run. In many cases the Fund therefore remains an owner even if a company does not meet our requirements, with the aim of trying to influence the company in a desirable direction.

One way of influencing companies is to vote at their shareholders' general meetings. Ultimately, if our engagement is unsuccessful, we can sell the holding. If we end our ownership, however, this does not automatically contribute to change. For that reason, exclusion of the company from the Fund's investment universe is a last resort, to be taken only when the opportunities to make a difference are deemed to be very small.

The current exclusion list is available on our website, www.ap1.se.



Industries we exclude in line with core values



Nuclear weapons

We do not invest in companies with operations that are not in line with the spirit of the Non-Proliferation Treaty, the aim of which is to eventually to rid the world of nuclear weapons. We include the modernisation and upgrading of existing nuclear weapons in this category.



Cannabis for non-medical use and tobacco

We do not invest in companies that operate in the area of cannabis for recreational use or for religious purposes on the basis of the UN conventions on narcotic drugs.

Investments in tobacco production are not compatible with the spirit of the Framework Convention on Tobacco Control, which aims to significantly reduce tobacco consumption and the harmful effects of smoking tobacco.



Cluster munitions and land mines

The Anti-Personnel Mine Ban Convention and the Convention on Cluster Munitions provides that states which have signed and ratified the treaty must stop producing, trading in and using anti-personnel mines and cluster bombs. We therefore do not invest in companies that manufacture cluster bombs or land mines.

SUSTAINABILITY STRATEGY

Dedicated investments that promote sustainable development

API's aim is to increase investments in assets that contribute to the UN's Sustainable Development Goals, so-called dedicated investments. The focus is on investments that contribute to major sustainability effects in relation to the capital invested, and also meet the Fund's overarching return target.

API's dedicated investments are primarily in real estate and infrastructure companies, sustainability bonds and in private equity funds with the stated objective of investing in companies that offer sustainable products and services.

Broader focus and increased ambition

In 2020, the Fund adopted a new definition of dedicated investments, which was broadened to include all of the UN's Sustainable Development Goals, rather than four prioritised goals.

As interest in sustainable business models grows, so too does the range of investment opportunities that meet the Fund's requirements. During the year, we have decided to increase our dedicated investments in private equity funds with a focus on companies which offer products that promote sustainable development.

New framework for investments in sustainability bonds

In 2020, the Fund developed a framework for investments in green and social bonds, which is an integral part

of the internal investment process and clarifies to our stakeholders which criteria the Fund applies for investments in sustainability bonds.

The framework for social and green bonds considers:

- The underlying project or asset's contribution to the UN Sustainable Development Goals
- The issuer's sustainability policy and the extent to which it corresponds to the Fund's expectations for sustainable companies in the long run
- ICMA's principles for green and social bonds

Read more on our website www.ap1.se.



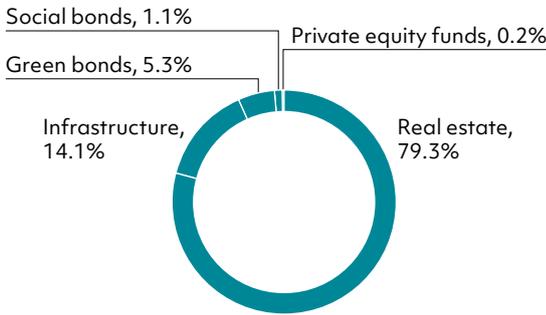
Sara Christensen and Helena Ring



Goal attainment and significant events in 2020



Allocation of total assets within dedicated investments, SEK 63,048 million in total



- New framework for investments in green and social bonds
- New investments in climate solutions, such as wind power projects, and in social infrastructure through Polhem Infra.
- New investments in private equity funds.

Polhem Infra invests in infrastructure

In 2019 AP1, together with AP3 and AP4, formed the company Polhem Infra to make long-term cost-effective investments in Sweden and the Nordics. Polhem Infra focuses on major infrastructure investments in the private and public sector, to meet society's long-term needs with an emphasis on collaboration and sustainability. Mikael Lundin is the CEO of Polhem Infra.

What can Polhem Infra bring to the companies you buy?

Polhem Infra fulfils a function that has been lacking on the market. We are a very long-term, active and stable owner that aims to contribute to a more sustainable society. As we have three AP Funds as owners, we can offer a long-term approach as well as partnership to infrastructure owners. A long-term approach gives customers, employees and society peace of mind.

You recently bought Telia Carrier – can you comment on the acquisition?

We are investing in an established company that has been built up

over three decades by Sweden's Telia Company. The company is a world-leader in backbone connectivity for data traffic, and all the forecasts point to a continued strong increase in data traffic. For us the acquisition is a long-term investment completely in line with our strategy.

What does the future hold?

Polhem Infra will continue to invest in social infrastructure, primarily in the core areas of digital infrastructure and energy. Our vision is a sustainable society based on sustainable, smoothly functioning and efficient infrastructure.



Mikael Lundin

SUSTAINABILITY STRATEGY

Active and responsible ownership

By being a business-oriented, long-term, engaged and transparent owner with high integrity, we strengthen trust in the Fund.

Diana Hellgren and Mats Enebrink

Active ownership increases the return

The aim of active ownership is to increase returns and reduce financial risk in the long run. AP1 is convinced that well-managed companies have greater potential to generate profits and avoid risks. For this reason, they may also give us a higher return. We want to make responsible use of the position afforded us through our ownership, so as to be a positive influence on the companies.

Many risks and opportunities relating to sustainability lie a number of years ahead. As a long-term owner, we want to understand and respond to them. We do this via dialogue with the companies in nomination committees and by voting at shareholders' general meetings.

The pandemic affected AGMs in 2020

The 2020 AGM season was characterised by great uncertainty due to the pandemic, and many companies therefore chose to postpone their dividend decisions to an extraordinary general meeting in the latter half of the year. To reduce the spread of the virus, most of the AGMs were held through postal voting, in accordance with temporary legislation that also applies in 2021. Some companies also chose to change their articles of association so that in the future hybrid meetings – conducted both physically and digitally – will be allowed. The number of extraordinary general meetings also rose, partially as a result of some companies postponing their dividend decision until autumn, while other companies had major capital requirements that necessitated decisions on rights issues.

At the end of 2020, AP1 owned equities in around 60 Swedish companies. We participated in a total of 89 shareholders' general meetings, 32 of which were extraordinary general meetings.

We were also active in 11 Swedish nomination committees and voted in more than 800 foreign shareholders' general meetings.

Increased scrutiny – how AP1 voted

AP1 works hard to participate in shareholders' general meetings and vote on various decisions at meetings in Sweden and around the world, both by taking action itself and through representatives. During the year, AP1 voted on around 12,500 different proposals. On around 2,300 occasions the Fund voted against the proposal. To increase transparency and also to put additional pressure on the companies we would like

to influence, we have brought together the data in an open report on our website, www.ap1.se.

Influence via dialogue

AP1's ownership engagement largely takes place via information and dialogue. First of all, we talk about the expectations we have of the companies through our ownership policy. For example, we have produced a brochure that explains our expectations of the companies we own.

Through regular dialogue with the companies' boards, management teams and individual board members we can put forward our views. Swedish companies usually hold regular discussions with their major shareholders ahead of the general meetings. Such meetings provide opportunities to influence the boards' proposals and jointly arrive at compromises that satisfy both the shareholders and the boards. For this reason, we rarely vote

against board proposals at Swedish shareholders' general meetings.

In foreign companies there is less opportunity to hold direct discussions and affect decisions. One reason for this is that the Fund's holdings, and therefore its voting power, is lower. Another is that it is more difficult to maintain regular dialogue with company boards. In many countries, the Companies Acts give shareholders few rights. When it comes to foreign holdings, AP1 works with other players to maximise the power of our requirements on the companies' management teams and boards.

Influence at EU level

The EU's amendment of the Shareholder Rights Directive (SRD2) came into force in 2020. The aim of SRD2 is to improve European corporate governance by increasing shareholders' rights and involvement. AP1 supports this aim and notes that Swedish regulations are very

advanced in this area. However, the European Commission also presented a number of far-reaching proposals in 2020 which, in the Fund's view, go against the purpose of SRD2. AP1, together with 30 or so other institutions and organisations in Sweden, has signed a letter that strongly criticises many of the Commission's proposals. The grounds for this are that the basis for the decisions is incomplete and does not accurately reflect the prevailing relationships on the capital market. Furthermore, AP1 deem the proposals relating to e.g. statutory regulation of board compositions to be inappropriate. Swedish governance is based on a high degree of self-regulation, which works well. In AP1's opinion, excessively sweeping regulation in line with the Commission's proposals risks resulting in worse functioning companies and, ultimately, a significant lack of capital in certain companies.

Read more at www.ap1.se.

Clear expectations part of advocacy strategy

As a guide for our stakeholders, we have summarised our view of sustainability and the expectations we have on the operations we invest in, in a brochure which is available on our website, www.ap1.se.



We expect companies to adhere to the following principles:

The ten principles for corporate sustainability (UN Global Compact) in, for example

- Human Rights and Labour
- Environment
- Anti-corruption

Applicable sanctions lists (e.g. from the UN, EU and US)

Transparent tax policy

Local laws and regulations

Shareholder rights

- Voting rights
- Equal treatment
- Board of Directors
- Capital structure

Relevant corporate governance codes



Examples of active ownership work in 2020

In the wake of the pandemic – a focus on share dividends and board fees

- Two issues that have prompted active company dialogue have been directly linked to the Covid-19 pandemic: these are dividends and board fees. In mid-March the Fund stated that it did not oppose lower dividends from companies. Companies are entitled to decide what the dividend should be, but we believe that the pandemic increases uncertainty for companies' liquidity, and that the money should therefore often remain in the companies. Since then a great many company boards have withdrawn or postponed their dividend proposals.
- In several nomination committees we have also striven for, and pushed through, unchanged board fees for 2020 in light of the great uncertainty during the pandemic.

Remuneration and incentive schemes

- We usually support and vote in favour of proposals from Swedish boards and nomination committees. One exception, however, is the matter of remuneration. This is because far too often, the boards propose schemes that do not correspond to what we deem to be best for the companies or us as owners. During the year the Fund, sometimes together with other institutions, negotiated with the boards of nine companies about their proposals for long-term incentive schemes. The performance requirements were too low or even non-existent. In other instances, the proposed valuations of employee share options for the participants were too low. In five of these cases we engaged in active dialogue to come to an agreement which enabled us to vote in favour of the proposals. In the other four cases we voted against the board proposals.

Better self-regulation

- AP1 has been involved in developing the regulations surrounding takeover situations, i.e. the rules relating to public takeover bids for listed companies. In this way the Fund is contributing to a sound equity market that looks after the interests of all shareholders.
- AP1 took part in the process of developing the Swedish Corporate Governance Board's rules on remuneration in Swedish companies. These rules came into effect on 1 January 2021.

Nomination committees

- In the nomination committees, the Fund strives to ensure that the company boards are adapted to the company's future needs. The members should have extensive autonomy and integrity. The proportion of women on the boards should generally increase.

Position on money laundering

- Following the money laundering affair in Swedbank, the Fund voted not to give Swedbank's former CEO Birgitte Bonnesen discharge from liability at the AGM on 28 May. This was also the decision of the AGM.

Ownership strategies and goal attainment for active ownership

Active ownership through board representation

11

Number of companies with board representation

Influence through nomination committee

11

Active ownership in 11 Swedish nomination committees

40.1%

Percentage of female Board members in companies where the Fund is on the nomination committee 2020

Influence through voting in Swedish shareholders' general meetings

89

Voted in 89 shareholders' general meetings in Sweden in 2020

Influence through voting in shareholders' general meetings abroad

>800

Voted in more than 800 shareholders' general meetings abroad in 2020

50

Follow-up letters to companies where the Fund voted against the proposals

AP1 exerts an influence together with other parties

The Council on Ethics of the Swedish National Pension (AP) Funds

The Council on Ethics was formed in 2007 by the First, Second, Third and Fourth AP Funds. The Council on Ethics acts and sets requirements for positive change regarding sustainability in foreign companies owned by the Funds, either individually or as an industry. The AP Funds are relatively small owners of foreign companies, and the Council on Ethics therefore focuses its work on the dialogues and projects that are deemed to make the most positive difference. The goal is to influence the companies to work systematically, in a structured and transparent way to prevent violations of international conventions signed by Sweden.

The Council on Ethics' experience to date shows that dialogue is an effective tool that produces results.

Read more on the Council on Ethics' website, www.etikradet.se.

The Council on Ethics has chosen to prioritise four areas for proactive dialogue:

Climate – primarily a transition in line with the Paris Agreement

Environment – mainly biological diversity and water

Human rights – primarily child labour and forced labour, and health and safety

Business ethics – mainly counteract money laundering and corruption

The AP Funds invest a lot of their capital in globally diversified equity portfolios. The total number of companies can be up to around 3,500 listed companies. In order to have as large positive effect as possible the Council on Ethics applies a systematic work process. The process also helps to ensure an even distribution of companies across different sectors, geographical areas and sustainability issues.

Significant events in 2020

The Council on Ethics and the Church of England Pensions Board worked together to increase safety in mining companies' tailings dams. The development of a new open database with information about operations and the monitoring of almost two thousand tailings dams has increased transparency. Furthermore, a new global safety standard for mine dams has been adopted. The project was initiated following a major accident in Brazil in early 2019, with a high number of fatalities due to inadequate safety work. The initiative was recognised by the Stewardship Project of the Year accolade, which is awarded by PRI, a UN-backed network of investors.

The Council on Ethics is continuing to work intensively to influence oil companies' long-term climate work, and on various projects to prevent deforestation in South America.

In 2020, the Council on Ethics has been a driving force in clarifying expectations on tech companies with regard to human rights, and in collaboration with other investors it demands that the sector strengthens its work.

“It is increasingly important to AP1 that the companies we invest in manage the climate issue well, a responsibility that lies with the boards. We will therefore place even more emphasis on these issues in our ownership work moving forward. For example, if we think that companies should do more in this area, we will more regularly contact them to point this out, and if they still fail to live up to our expectations we will vote against re-electing the board members responsible.”

Ossian Ekdahl, Chief Active Ownership Officer



Together for sustainability

AP1 is a major investor that plays a key role in society, and our work on sustainable value creation is framed by a number of principles and guidelines, such as the UN Global Compact and the UN's Guiding Principles on Business and Human Rights. We report in accordance with Task Force on Climate-related Financial Disclosures (TCFD) recommenda-

tions and the Global Reporting Initiative (GRI), see www.ap1.se, and we also recommend that other companies do the same. To strengthen our ability to influence others, we have joined a number of international and Swedish collaborations and initiatives.

Collaborations	Aim
The Council on Ethics of the Swedish National Pension (AP) Funds	A collaboration between the First, Second, Third and Fourth AP Funds to actively influence non-Swedish companies to improve their sustainability work.
Principles for Responsible Investment (PRI)	The UN-backed PRI network is a global initiative for institutional investors that promotes increased understanding and implementation of responsible, sustainable investments.
Institutional Investors Group on Climate Change (IIGCC)	A European investors network that collaborates on climate issues.
Climate Action 100+	A global collaboration initiative for investors to influence companies to take necessary measures to limit climate change. The focus is on the 100 companies that are deemed to have the largest carbon footprint globally.
Transition Pathway Initiative (TPI)	A global initiative backed by investors, which aims to gather information on and assess companies' preparedness for the transition to a low carbon economy.
Global Real Estate Sustainability Benchmark (GRESB)	A global, industry-driven organisation that collects and compares sustainability information for real estate and infrastructure investments.
Extractive Industries Transparency Initiative (EITI)	An initiative for greater clarity and transparent reporting of earnings for companies in the extractive industries.
Hållbart värdeskapande/ Sustainable Value Creation	A collaborative project between some of Sweden's largest institutional investors and Nasdaq OMX to promote companies' work with and reporting on sustainability issues.
Sweden Sustainable Investment Forum (SWESIF)	An independent networking forum for organisations that work for or with sustainable investments in Sweden.
International Corporate Governance Network (ICGN)	A global cooperation to raise standards in active ownership, relating for instance to rights for shareholders to vote at general meetings.
Institutional Owners Association	A collaboration which aims to promote positive development in self-regulation on the Swedish equity market.
The Swedish Securities Council	Responsible for determining what is regarded as good practice on the Swedish stock market by issuing statements, giving advice and providing information. The Council can also examine whether listed companies' measures are compatible with good practice.
StyrrelseAkademien	A Swedish non-profit association that works to strengthen companies competitiveness by professionalising board work.

AP1's international advocacy agenda 2020

Examples of initiatives signed during the year:

- Investor letter that urges around 100 companies which, according to the Corporate Human Rights Benchmark, are in the greatest need of improving their work on human rights.
- Investor letter asking EU leaders to consider sustainability aspects, such as the climate transition, in the recovery plan for covid-19.
- Letter to the European Commission regarding excessively sweeping regulation of board composition and board responsibilities.
- At the end of the year, the Council on Ethics and a number of major investors signed an appeal to the global tech companies, such as Facebook, Google (Alphabet) and Twitter, regarding issues relating to the challenges surrounding human rights in their operations.
- Involvement in European Lab within EFRAG, which aims to encourage and highlight good examples of non-financial reporting.

THE PRI AWARDS recognised that the Council on Ethics of the Swedish National Pension (AP) Funds and the Church of England Pensions Board pursued a number of measures to increase safety in mining companies' tailings dams. The initiative was supported by a further 114 international investors, and won a PRI Award in 2020 in the Stewardship Project of the Year category.



Focus area Climate change

Climate change is one of the biggest challenges of our time and affects us all. AP1 considers the climate issue to be an exceptionally large risk that affects our ability to create value in the long term. The Board has therefore adopted a specific climate strategy as a focus area for sustainable value creation, with the objective to have a carbon neutral portfolio by 2050 at the latest in line with the Paris Agreement.

As a large investor, AP1 has a responsibility to report developments in its own portfolio, but it is equally important to encourage companies, through active ownership, to set goals and report in a transparent and relevant way. This can be carried out in line with Task Force on Climate-related Financial Disclosures (TCFD) recommendations. What is measured will produce results, and help to steer the capital towards long-term sustainable alternatives.

“Companies must understand how their business models and operations are affected by a transition in line with the Paris Agreement, and they should steer towards relevant goals to adapt to a society far less dependent on fossil fuels. This is something that we are monitoring and including in our assessments.”

MAGDALENA HÅKANSSON,
HEAD OF SUSTAINABLE VALUE CREATION, AP1

Climate work

AP1's climate strategy is based on understanding, identifying and analysing climate risks and how they may affect the value of the Fund's investments, and on the Fund's ability to promote sustainable development. The analysis lays the foundation for how we integrate and address climate risks in the Fund's portfolio strategies.

Governance

AP1's Board of Directors has adopted a climate strategy with the objective to reduce the portfolio's carbon emissions so that it is carbon neutral by 2050, mainly by ensuring that the companies we own reduce their carbon footprints. During the year, we have added an interim goal of halving the portfolio's footprint by 2030. This shall be achieved without us compromising on our overarching objective of attaining a high return in the long run. The Board's sustainability committee regularly monitor the Fund's progress and targets.

Strategy

Climate risks is usually broken broken down into:

- **Transition risk** – primarily driven by regulatory changes, technical developments and new consumption patterns to transition in line with the Paris Agreement, and
- **Physical risks** – as a result of gradually rising temperatures and extreme weather conditions if we are unable to restrict global warming.

Different companies and industries will be affected to different degrees depending on the scenario. Climate scenario analyses are used to inform the Fund's strategic asset allocation.

AP1 considers transition risk to be the primary risk to its portfolio in coming years. At the same time, it is important to consider the physical risks to our assets in long-term investments.

In addition to climate risks affecting the value of the Fund's investments, the Fund has an opportunity to contribute to a transition in line with the Paris Agreement through its active ownership and dedicated investments.

Risk management

Greater consideration is given to material climate risks when investing in different asset classes. Furthermore, the Fund uses a tool for identifying the most material climate risks in the equity portfolio based on transition risks. The tool is used to prioritise integration efforts and the Fund's active ownership, and over time it will encompass all asset classes. Following our work to identify and analyse climate risk and how it can affect the Fund's investments, AP1 decided in 2019 to significantly decrease the portfolio's exposure to fossil fuel. Following an in-depth impact analysis, in 2020 the Fund withdrew investment from companies with fossil-based business across all asset classes, in both its internal and external asset management. 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 decision to stop fossil investment is a move in reducing the Fund's climate risk exposure.

AP1 no longer invests in fossil fuel companies.

Exposure to climate risks has long been a key focus area for the Fund, and consequently the Fund has gradually reduced its exposure. At the end of 2018 we divested companies with operations in coal and oil sands, and in 2020 we withdrew from investing in companies with operations in any fossil fuels. In addition to companies in the energy sector (coal, oil and gas companies) the divestment also applies to:

- companies that extract coal
- companies that own large coal reserves
- companies that produce coal power



Goal attainment and significant events in 2020

- The withdrawal of investment in fossil-based companies was a big step in reducing the portfolio's exposure to climate risk.
- Increased dedicated investments in climate solutions such as wind power and investments in green bonds.
- The equity portfolio's carbon emissions decreased sharply for the second consecutive year, from 1.6 to 0.87 million tCO₂e, well in line with the interim goal of halving the portfolio's carbon footprint by 2030.
- Integration of climate scenario analyses into the CMA model for the Fund's strategic asset allocation.
- Consider companies' management of carbon emissions in the majority of the Fund's equity strategies.
- Extended measurement and reporting of the portfolio's carbon footprint, to also include credit bonds and investments in real estate and infrastructure.



Reporting our carbon footprint

Every year, AP1 reports on the carbon footprint of its investments using four indicators. The reporting is coordinated with the other AP Funds. Three of the indicators are calculated based on the size of the Fund's share of ownership in the companies. The fourth indicator is a weighted average, reported in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).

The carbon footprint is calculated as of 31 December using the latest available CO₂ data for the companies'

direct emissions (Scope 1) and indirect emissions from energy (Scope 2).

Changes in the Fund's carbon footprint can have two causes: changes in portfolio holdings, or changes in the companies' actual carbon emissions. By making changes to the portfolio, for example by reducing exposure to companies with relatively high carbon emissions, the Fund can influence the carbon footprint and climate-related risk in the portfolio. To achieve a change in total CO₂ emissions into the atmos-

phere, the portfolio companies need to transition and reduce their carbon emissions.

Since 2019, the AP Funds report both the effect of changes in the equity portfolio's holdings and changes in the companies' emissions. This year, we are also reporting the carbon footprint of the Fund's real estate and infrastructure holdings, and its holdings of credit bonds.

See the results for 2020 on the next page.



Carbon footprint 2020

In 2020, the listed equity portfolio's carbon intensity decreased by 44 per cent to 9.3 tCO₂e/SEKm, of which 52 percentage points is due to changes in the portfolio to reduce the Fund's climate risk exposure, primarily as a result of the decision to divest all fossil-based companies in 2020. At the same time we saw an increase in the portfolio companies' carbon intensity of 8 percentage points, which can largely be explained by changes in exchange rates.

The weighted average carbon intensity of the Fund's real estate and infrastructure holdings and its holdings of credit bonds amounted to 5.6 tCO₂e/SEKm and 15.9 tCO₂e/SEKm respectively.

Change in weighted average carbon intensity (tCO₂/SEKm)



Carbon footprint of the listed equity portfolio

	2020	2019	2018	2017	2016
Total carbon emissions (million tCO₂e) ¹⁾	0.87	1.60	1.80	1.60	1.70
Change in the portfolio's total carbon intensity in relation to last year, (%)	-46				
– of which change due to changes in portfolio holdings, percentage points	-45				
– of which change due to changes in the companies' emissions, percentage points	-1				
Relative carbon emissions (tCO₂e/SEKm) ²⁾	4.8	13.0	16.1	12.8	14.2
Carbon intensity (tCO₂e/SEKm) ³⁾	10.7	18.9	24.8	20.6	24.7
Weighted average carbon intensity (TCFD) (tCO₂e/SEKm) ⁴⁾	9.3	16.5	25.2	24.2	
Change in the portfolio's carbon intensity (TCFD) in relation to last year, %	-44	-34			
– of which change due to changes in portfolio holdings, percentage points	-52	-29			
– of which change due to changes in the companies' emissions, percentage points	8	-5			
Mapped market value as a percentage of total net assets, %	47	34	34	39	39
Percentage of market value for which reported emission data exists, %	72	68	71	59	68

1) The total of the owned share of portfolio companies' individual carbon emissions.

2) The total of the owned share of portfolio companies' individual carbon emissions in relation to the portfolio's market value.

3) The total of the owned share of portfolio companies' individual carbon emissions in relation to the total of the owned share of the portfolio companies' turnover.

4) The metric adds together each portfolio company's carbon intensity, i.e. a company's carbon emissions in relation to its turnover, weighted according to each company's share in the portfolio.

AP1's direct environmental impact

	2020 ¹⁾	2019	2018
Power consumption in own offices, MWh	137,542	148,717	164,915
District cooling consumption in own offices, MWh	125.0	132.8	130.9
Heating consumption in own offices, MWh	34	48.5	55.5
Water consumption, m ³	530.0	725.6	660.4
Paper consumption, tonnes	0.3	0.8	1.0
Percentage of ecolabelled paper out of total paper consumption	100	100	100
Business travel by air, tens of thousands of km	6	52	81
Business travel by air, emissions in CO ₂ , tonnes	16	69	96

1) The pandemic has affected the results for 2020.

Our direct climate impact

The Fund's direct climate impact is limited, and we are taking measures to reduce our negative footprint and carbon emissions. This includes the careful use of natural resources and energy, and managing waste in an environmentally friendly way. We carbon offset all business flights and the office building is powered by solar energy.

Trust in us is important to us

The Government's review

The annual review carried out by consultancy firm McKinsey on behalf of the Swedish Government was published in May. The Government views the fact that the AP Funds and Council on Ethics have taken several steps towards responsible and sustainable investments positively. According to the review, the AP Funds are on the leading edge in terms of sustainability, compared to leading global institutional investors. The Funds excel primarily in their active ownership engagement, and also in integrating sustainability with asset management.

Broad stakeholder dialogue

Continuous dialogue with stakeholders provides important guidance in sustainability work. This is why the First, Second, Third and Fourth AP Funds

together with the Council on Ethics engaged in a stakeholder dialogue directed at more than 200 people in 2020. The stakeholder groups consisted of principals, portfolio companies, suppliers, industry colleagues, trade associations, the general public and employees.

All in all the dialogue demonstrated that the stakeholders are well-informed about our operation and are very confident that we are living up to our mandate.

The stakeholders also have a lot of trust in the AP Funds' work on sustainability issues, but they think the Funds could be better at managing and communicating sustainability-related risks and opportunities in their investments. The importance that the AP Funds strive for a climate transition in partnership with other players was specifically mentioned.

Prioritised areas of sustainability

In a survey, stakeholders were asked to rank 12 areas of sustainability based on how important they thought the areas were to the AP Funds. The five most important areas for all stakeholders were:

- Business ethics
- Anti-corruption
- Long-term return
- Human rights
- Climate impact

Then, in descending order, came environmental impact, transparency in companies, working conditions, sustainable supply chain, biological diversity, diversity and gender equality, and information security.

The AP Funds intend to follow up the results and deepen their dialogue with selected interest groups in 2021.

The auditors' statement regarding AP1's sustainability reporting,

corp. ID no. 802005-7538

Mandate and division of responsibility

The Board of Directors has been responsible for the sustainability reporting for 2020 and for ensuring that it has been drawn up in accordance with AP1's principles for sustainability reporting, which correspond to those set out in the Swedish Annual Accounts Act.

The focus and scope of the review

Our review has been guided by recommendation RevR 12 (The auditors' statement on the statutory sustainability reporting) issued by FAR, the institute for the accountancy profession in Sweden. This means that our review

of the sustainability reporting has a different focus and far narrower scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this review provides us with sufficient grounds for our statement.

Statement

Sustainability reporting has been prepared.

Peter Nilsson

Authorised Public Accountant

Appointed by the Swedish Government

Helena Kaiser de Carolis

Authorised Public Accountant

Appointed by the Swedish Government

AP1's sustainability report is based on the AP Funds' common guidelines for reporting how the objective of exemplary management has been achieved. We strive to follow the Swedish Annual Accounts Act's guidelines for sustainability reporting and GRI standards.

The Fund's sustainability reporting can be found on pages 26–41. The GRI index can be found on our website at www.ap1.se.

Employees

AP1 has an important social mandate that motivates and engages our employees. The Fund is a relatively small, knowledge-intensive organisation in which each employee plays a key role. This is why it is extremely important that we can attract, retain and further develop our employees. The vision for our strategic HR work is to reach our goals and develop the operation together by having the right expertise in the right place. We want to create an encouraging, inclusive environment with equal opportunities for everyone. A place where employees feel dedication, motivation and joy, and are given scope to take responsibility and develop. Collaboration and cooperation are crucial to enabling us to achieve our goals.

Diversity and gender equality

In our opinion, a mixture of women and men, different experiences and different educational backgrounds improves results, dynamics and creativity. We also believe that diversity of perspective helps to create an attractive workplace. We are a small, linear and agile organisation characterised by a high level of expertise and an international climate.

The level of education among AP1's employees is generally high. Many have various qualifications in economics, or a background in mathematics/engineering or IT. Women account for 44 per cent of the workforce and the average age is 44. Staff turnover in 2020 was 8.0 per cent (7.0) and sick leave was 1.0 (1.0) per cent.

Market pay surveys are regularly conducted to ensure that pay levels and remuneration are market-based and reasonable. It is important for the Fund to support a healthy working environment and equal opportunities for women and men, and these are monitored annually.

Development

To succeed in our mandate, it is vital to instil dedication, motivation and satisfaction in our employees and give them opportunities to develop. In addition to our mandate that is important to society, many of our employees find it

stimulating that each of them are given great responsibility and that strict demands are placed on our operation.

We work with some of the world's leading investors and in some areas, such as sustainability, we are at the forefront globally. We give all our employees an opportunity to increase their knowledge on various subjects through so-called teach-ins, i.e. lectures from external partners and from our employees in selected subjects.

As we are a small organisation, our employees gain insight into many aspects of the asset management operation. The Fund also encourages active further training, both internally through, for example, collaborations between junior and senior employees, and externally.

In 2020 our new department for External Partnerships and Innovation also launched micro-innovation projects with the aim of collecting proposals for innovation in various areas and developing these ideas with the support of internal and/or external expertise.

Proud ambassadors

It is important that the Fund is trusted by society, and one way of helping to achieve this is to have proud employees and create ambassadors, both internally and externally. This has a positive impact on future employees and the Fund's other stakeholders.

Feedback for development

The stimulating, supportive atmosphere is also key to creating enjoyment, engagement and scope for development. In 2020 work began on supporting a culture of continuous development, where all employees constantly seek and provide feedback in a structured way. This feedback then becomes a natural starting point for individual development and is discussed in employees' progress reviews.

Employee survey

During the year, an employee survey was conducted to find out employees' views and thoughts on their workplace. The response rate was high, and many employees shared their ideas and provided constructive feedback.

Ethics and core values

Our culture is firmly anchored in the AP Funds' core values: Clear values and policies guide employees in their day-to-day work.

In 2020 we held an online joint Ethics Day online as well as online nano-learning in data security and money laundering for all employees.

Working environment and health

As we know that healthy employees perform better, we promote good long-term health by offering all employees regular health checks, fitness subsidies and health breaks.

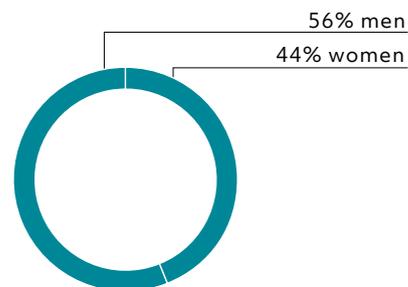
During the pandemic, most employees have worked from home. This has meant new challenges for AP1's managers in creating ongoing engagement and a good work climate. The Fund has actively striven to create cohesion through various online social activities, such as a photography competition, step competition, personal training sessions and digital break rooms. We have also had a number of so-called teach-ins with interesting external speakers.

To contribute to healthier, safer working environments in the home, the Fund has secured the right work equipment for employees, such as screens and office chairs. In the autumn we set up a working group for our work practices post-corona to discuss what we think the future workplace will look like, and what changes should be implemented to make the best use of the experiences we have gained during the pandemic.

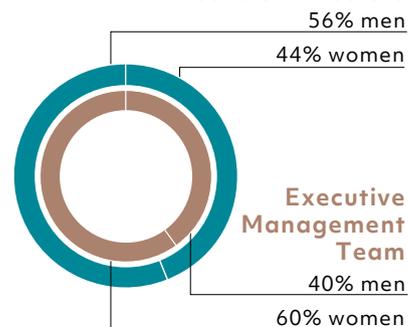
Key ratios for employees

	2020	2019	2018	2017	2016
No. of employees, average	66	65	61	61	59
of whom women, %	44	40	37	39	36
No. of executive management members	5	7	7	8	8
of whom women, %	60	71	57	63	63

Gender distribution



Board of Directors



Rashmi Chandrappa joined AP1's IT unit in autumn 2018, and since then she has played a key role in both the operation and development of the Fund's IT environment. To be part of the tech team at AP1 you need to have broad IT expertise as well as a specialist area.

What attracted you to working at AP1?

That it is a transparent, international and multicultural workplace where I can use my experience from the finance industry. At the same time I can develop my knowledge about the Swedish pension system.

What are your work duties?

I work with IT, and my group is responsible for managing and installing systems, maintenance, troubleshooting, configuration and automation, and more. I don't have routine work as such, instead there are new challenges, puzzles and problems to be resolved every day, which makes it enjoyable and interesting. Then we create ongoing methods and procedures to stop the problems reoccurring. IT security also takes up a lot of my time. We must stop hackers from accessing our systems, but we also work to combat other IT risks. I'm a creative person so the problem-solving part is my favourite.



Rashmi Chandrappa

What's the best thing about working at AP1?

It's a small, non-hierarchical organisation and open minded, which makes it a very friendly place to work. The Fund also has a great culture with a good work-life balance. I also learn a lot from working alongside such competent colleagues.

Directors' Report

The Board of Directors and the CEO of Första AP-fonden hereby submit their Directors' Report for 2020. The Directors' Report, together with the annual accounts and notes, has been reviewed by the auditors of the Fund. The review covers pages 44–62.

Första AP-fonden's (AP1's) net investment income for 2020 was SEK 34.8 billion (48.6), which means a return after expenses of 9.7 per cent (15.1). Measured over the last ten-year period, the return was 8.0 per cent. This equates to an average real return of 7.0 per cent a year, exceeding the medium-term target of a real return after expenses of 3.0 per cent over rolling ten-year periods.

Transfer to the Swedish Pensions Agency

In 2020, the Fund transferred SEK 7.9 billion (6.5) to the pension system to cover the deficit in pension contributions in relation to pension disbursements. Since 2010, the Fund has paid SEK 61.2 billion net to the Swedish Pensions Agency to cover the deficit in pension disbursements.

Control and mandate

The Board of Directors of AP1 bears full responsibility for the operations of the Fund and is responsible for the Fund's organisation and management of Fund assets. The Board's work is regulated by the AP Funds Act (the National Pension Insurance Funds Act (2000:192)). The Board has delegated a management mandate to the CEO, who establishes the

asset management framework. The mandate is expressed in a risk tolerance. This is manifested in an overarching asset allocation and limitations as to how much the asset allocation can be deviated from. The limitations are expressed both as exposure limits and limitations in terms of forecast tracking error.

Asset allocation and results of the Fund's management

Within the framework of the management mandate, the CEO of AP1 decides on the management orientation and asset allocation in the form of a strategic asset allocation. The CEO's strategic asset allocation forms the basis of the management organisation's work on allocation and management.

Collaboration and cooperation with other AP Funds

The AP Funds' Council on Cooperation was set up in 2016 to develop collaboration and cooperation between the First, Second, Third, Fourth and Seventh AP Funds. The aim is to collaborate on areas outside of investment with the goal of achieving cost efficiency, efficient utilisation of resources, and an exchange of experience and knowledge. The work takes place in different established forums in the shape of cooperation groups, with a varying composition of representatives from the various AP Funds.

Net investment income for 2020 before expenses

	Exposure SEK bn	Return	Return contribution %	Return contribution SEK bn
Equities	193.3	12.1%	6.9%	25.0
<i>Sweden</i>	67.8	20.5%	4.1%	14.8
<i>Developed markets</i>	85.5	9.8%	3.4%	12.1
<i>Emerging markets</i>	39.9	2.8%	-0.6%	-2.0
Fixed-income securities	95.1	5.9%	1.6%	5.9
High yield	7.5	3.7%	0.0%	-0.1
Real estate	55.3	9.2%	1.3%	4.7
Infrastructure	8.1	-6.9%	-0.2%	-0.8
Private equity funds	19.2	11.7%	0.7%	2.4
Hedge funds	14.9	9.6%	0.3%	1.2
Alternative strategies	–	-8.0%	-0.1%	-0.4
Cash	-0.8		0.0%	-0.1
Foreign exchange			-0.8%	-2.7
Absolute return mandate			0.0%	0.1
Total	392.6	9.8%	9.8%	35.1

The common denominator in these collaborations is that they are run based on the added value created by the collaboration, both for each individual Fund and for the Funds together. Each liaison group formulates its own mandate description and action plan annually, and these are monitored and reported to the Council on Cooperation every six months. At the end of the year, the year's work is summarised in a report to the Fund CEOs, which is also used as a basis for the Government's annual assessment of the AP Funds.

In 2020, cooperation between the Funds took place via digital platforms as a result of the pandemic. It has been valuable for the Funds to be able to share experiences and learn from each other in the situation we find ourselves in due to Covid-19. Other examples of areas where the Funds have cooperated during the year are on procurements, innovation and new technology, and in the field of information security. A stakeholder dialogue was carried out in autumn and other shared communication initiatives have been implemented with good results. In addition to the regular joint meetings in each liaison group, much of the cooperation takes place in the ongoing contacts between employees at the different Funds, where they can discuss issues with others in the same area.

Sustainable value creation

AP1's ambition in the field of sustainability is high. The Fund is convinced that investments in sustainable companies entail a lower risk and probably generate a higher return in the long run. Sustainability aspects are integrated into investment decisions and the Fund's work as an engaged owner. AP1's entire asset management is steeped in its ambition to generate long-term sustainable value growth. In 2020 the Board decided on a new sustainability goal: the portfolio shall be carbon neutral by 2050, with an interim goal of halving our carbon footprint by 2030. AP1's sustainability reporting can be found on pages 26–41 of this annual report.

Asset class Equities

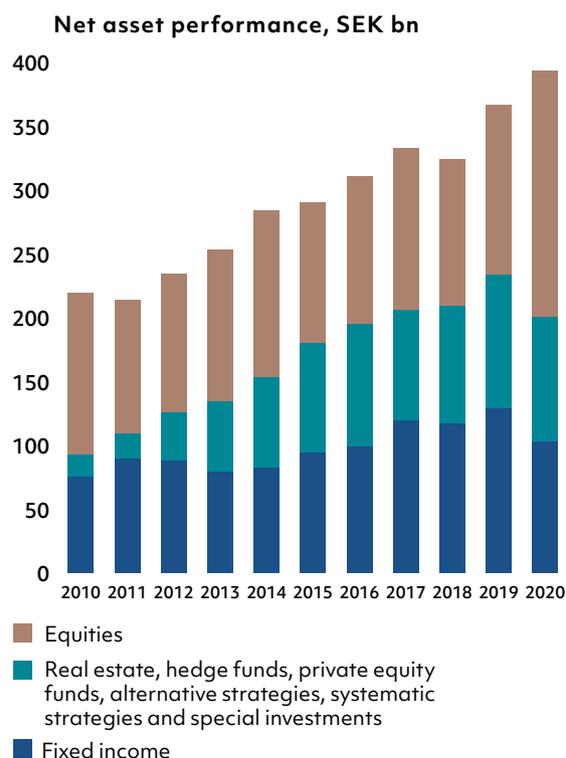
AP1's equity portfolio was valued at SEK 193.3 billion at year-end, equating to 49.2 per cent of the total portfolio. The equity portfolio comprises SEK 67.8 billion in Sweden, SEK 85.5 billion in foreign developed markets and SEK 39.9 billion in emerging markets. Swedish equities and equities in foreign developed markets are chiefly managed internally, while emerging markets are handled by external managers. The return on the equity portfolio for 2020 was 12.1 per cent, which equates to SEK 25.0 billion.

Fixed-income securities with a higher credit rating

AP1's fixed-income portfolio was valued at SEK 95.1 billion at year-end, equalling 24.2 per cent of net assets. The majority comprise investments in foreign bonds. AP1 also has fixed-income securities through Fund holdings within the alternative strategies sub-portfolio. The return on the Fund's fixed-income portfolio in 2020 was 5.9 per cent, equalling SEK 5.9 billion.

Fixed-income securities with a lower credit rating

AP1's investments in bonds with a lower credit rating (high-yield investments) amounted to SEK 7.5 billion or 1.9 per cent of the total portfolio on 31 December 2020. The return on the high-yield portfolio for 2020 was 3.7 per cent, which equates to SEK –0.1 billion.



Alternative investments

Real estate

AP1's real estate holding was valued at SEK 55.3 billion at year-end, equalling 14.1 per cent of net assets. The main long-term focus of the Fund's real estate investments is running return from rent payments, and to some extent expected value appreciation. The return on the real estate portfolio in 2020 totalled 9.2 per cent, equalling SEK 4.7 billion.

Infrastructure

The Fund's investments in infrastructure amounted to SEK 8.1 billion at year-end, equalling 2.1 per cent of net assets.

The return on the infrastructure portfolio was -0.2 per cent, which equates to SEK -0.8 billion.

Hedge funds

AP1's hedge fund portfolio was valued at SEK 14.9 billion at year-end, equalling 3.8 per cent of net assets. Investments in hedge funds are designed to generate a more diversified, robust portfolio, which tones down the effects of sharp price volatility in the rest of the portfolio. The return on the hedge fund portfolio in 2020 was 9.6 per cent, equalling SEK 1.2 billion.

Private equity funds

AP1's investments in private equity funds amounted to SEK 19.2 billion at year-end, equalling 4.9 per cent of net assets. The Fund invests globally in private equity funds. Exposure has decreased slightly during the year and is currently just under the target allocation of 5.0 per cent. The return on this asset class is expected to be higher than for listed equities over time. The return on the private equity portfolio for the year was 11.7 per cent, equalling SEK 2.4 billion.

Alternative strategies

AP1's portfolio for alternative strategies was wound down at the beginning of the year. Alternative strategies included a risk parity portfolio and a portfolio consisting of alternative beta strategies. The return on the alternative strategies portfolio for 2020 was SEK -0.4 billion, which equates to a return of -8.0 per cent.

Foreign exchange

AP1 owns assets in several different currencies. Currency is treated as a separate asset that is managed according to special foreign exchange strategies. Currency positions are taken to increase returns and to reduce risk in the total portfolio. The return contribution from the currencies amounted to -0.8 per cent, which equates to SEK -2.7 billion.

Expenses 2020

To gauge the Fund's cost efficiency, the Fund takes part in international cost benchmarking conducted by CEM Benchmarking. The Fund is compared against a group comprising 19 global pension funds with approximately the same portfolio breakdown and size. None of the other AP Funds are in the comparison group. The analysis for 2020 showed that the Fund's costs are still lower than those of the comparison group.

Operating expenses for 2020 amounted to SEK 226 million. Commission expenses totalled SEK 76 million. Over the past two years, the Fund has actively worked to reduce its commission expenses. In total, the Fund has reduced its expenses by approximately SEK 110 million, compared to commission expenses for 2019.

The expense ratio for operating expenses and commission expenses has fallen from 0.15 per cent to 0.08 per cent in the period 2016-2020. Measured in Swedish kronor, expenses have fallen from SEK 458 million to SEK 302 million during the period.

Expenses and expense ratio 2020

Asset class	2020		2019	
	Expenses, SEK m	Expense level, %	Expenses, SEK m	Expense level, %
Personnel costs	134	0.04	149	0.04
Other administration expenses	92	0.02	90	0.03
Operating expense	226	0.06	239	0.07
Commission expenses	76	0.02	186	0.05
Total expenses	302	0.08	425	0.12

Currency exposure, 31/12/2020

SEK m	USD	GBP	EUR	JPY	Others	Total
Shares and participations	122,334	6,085	13,898	6,624	18,728	167,669
Fixed-income securities	28,864	6,676	17,385	8,190	1,613	62,728
Other assets	1,711	127	914	35	440	3,227
Derivatives	-102,429	-22,826	-22,139	4,898	-68	-142,564
Total	50,480	-9,938	10,058	19,747	20,713	91,060
Currency exposure, 31/12/2019	34,063	379	1,129	26,473	31,792	93,836
Currency exposure, 31/12/2018	22,349	-1,456	-3,689	32,051	34,939	84,194
Currency exposure, 31/12/2017	32,198	6,406	7,057	8,103	30,244	84,008

Ten-Year Overview

Net investment income and inflow, SEK bn	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net assets, at 31 December	392.6	365.8	323.7	332.5	310.5	290.2	283.8	252.5	233.7	213.3
Net flow from the pension system	-7.9	-6.5	-6.8	-7.4	-6.6	-4.9	-5.1	-6.9	-3.8	-1.2
Net investment income for the year	34.8	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	9.8	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	0.07	0.07	0.06	0.06	0.07	0.07	0.08	0.07
Commission expenses, annualised, % of AUM	0.02	0.05	0.07	0.07	0.09	0.11	0.10	0.07	0.06	0.05
Return after expenses	9.7	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	35.1	49.0	-1.6	29.8	27.4	11.8	36.9	26.0	24.5	-4.0
Operating expenses and commission expenses	-0.3	-0.4	-0.5	-0.4	-0.5	-0.5	-0.5	-0.3	-0.3	-0.3
Exposure, %										
Equities	49.2	36.3	34.1	37.9	34.1	34.7	48.9	49.2	47.4	49.2
Sweden	17.3	10.5	11.2	12.9	12.3	12.3	11.6	12.0	11.4	12.6
Developed markets ⁽¹⁾	21.8	11.9	8.8	10.7	12.5	14.4	27.1	27.5	25.0	25.3
Emerging markets	10.2	13.9	14.1	14.2	9.2	8.0	10.1	9.7	11.0	11.4
Fixed-income securities ⁽²⁾	24.2	32.3	33.3	31.7	29.8	30.2	30.9	31.2	36.4	40.9
Cash	-0.2	-0.3	-2.5	-2.4	-1.1	-0.1	-1.1	-0.7		
Real estate	14.1	14.8	14.3	12.8	12.6	11.5	8.8	8.8	7.7	5.6
Infrastructure	2.1	3.0	3.7	3.4	3.0	2.9				
Hedge funds	3.8	4.3	4.6	4.0	5.0	4.8	5.9	4.9	4.3	0.2
Private equity funds	4.9	5.4	5.5	4.6	4.7	5.0	4.4	3.3	3.2	2.8
High yield	1.9	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	23.2	25.7	26.0	25.3	22.1	31.3	35.1	29.2	27.4	21.3
Risk										
Risk ⁽³⁾	10.6	3.8	4.9	3.6	6.4	8.1	5.4	5.0	5.9	8.9
Sharpe ratio	0.9	4.2	0.0	2.9	1.5	0.5	2.6	2.1	1.9	neg.
External management, %										
Share of total portfolio at 31 December ⁽⁴⁾	22.6	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) Investment grade bonds (fixed income incl. cash funds in accounts = 23.87% for 2020).

(3) Standard deviation calculated on daily return in 2020.

(4) 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	Note	31/12/2020	31/12/2019
Operating income			
Net interest income	1	1,568	2,336
Dividends received		2,932	4,998
Net gains/losses, listed shares and participations	2	25,829	22,277
Net gains/losses, unlisted shares and participations	3	7,708	10,108
Net gains/losses, fixed-income assets		2,968	3,763
Net gains/losses, derivative instruments		2,701	-1,783
Net gains/losses, foreign exchange movements		-8,624	7,343
Commission expenses	4	-76	-186
Total operating income		35,006	48,856
Operating expenses			
Personnel costs	5	-134	-149
Other administrative expenses	6	-92	-90
Total operating expenses		-226	-239
Net investment income		34,780	48,617

Balance Sheet

SEK m	Note	31/12/2020	31/12/2019
Assets			
Shares and participations, listed	7	185,645	127,072
Shares and participations, unlisted	8	92,145	94,433
Bonds and other fixed-income assets	9	102,386	131,400
Derivatives	10	7,595	4,356
Cash and bank balances		4,689	9,029
Other assets	11	344	982
Prepaid expenses and accrued income	12	646	805
Total assets		393,450	368,077
Liabilities			
Derivatives	10	763	1,526
Other liabilities	13	31	746
Deferred income and accrued expenses	14	19	46
Total liabilities		813	2,318
Net assets			
	15		
Opening net assets		365,759	323,662
Net payments to/from the pension system		-7,902	-6,520
Net investment income for the year		34,780	48,617
Total net assets		392,637	365,759
Total net assets and liabilities		393,450	368,077
Memorandum items	16	40,111	29,834

Notes

Accounting and valuation policies

The National Pension Insurance Funds Act (2000:192) sets out that the annual report shall be prepared in accordance with generally accepted accounting principles, whereby the assets in which the Fund invests shall be entered at market value. In light thereof, the First to Fourth AP Funds (AP1, AP2, AP3 and AP4) have developed joint accounting and valuation policies which have been applied and are summarised below. The Funds' accounting and valuation policies are being gradually adapted to International Financial Reporting Standards, IFRS. Complete adaptation to IFRS would have no material impact on the reported net investment income and net assets. AP1 meets the requirements to be defined as an investment entity under IFRS 10. Compared to the currently applicable IFRS, the only major difference is that a cash flow statement has not been prepared and IFRS 16 has not been applied.

Trade date accounting

Transactions in securities and derivative instruments in the money, bond, equity and foreign exchange markets are recognised in the balance sheet at the trade date, i.e. the time at which material rights and hence risks are transferred between the parties. The receivable from or liability to the counterparty between the trade date and settlement date is recognised in "other assets" or "other liabilities". Other transactions, primarily those relating to unlisted equities, are recognised in the balance sheet at the settlement date, which is consistent with market practice.

Netting

Financial assets and liabilities are recognised net in the balance sheet when there is a legal right to net transactions and there is an intention to pay net proceeds or realise the asset and simultaneously settle the liability.

Translation of foreign currency

Transactions in foreign currencies are translated to SEK at the exchange rate on the transaction date. In the balance sheet, assets and liabilities in foreign currencies are translated to SEK at the exchange rates on the balance sheet date. Changes in the value of assets and liabilities denominated in foreign currency are broken down into the part attributable to the change in the value of the asset or liability in local currency and the part caused by fluctuations in the exchange rate. Foreign exchange gains/losses arising from changes in foreign exchange rates are recognised in the income statement in the line net gains/losses, foreign exchange movements.

Shares in subsidiaries/associated companies

In accordance with the National Pension Insurance Funds Act, shares in and loans to subsidiaries/associated companies are both stated at fair value. Fair value is determined using the same methods that apply for unlisted shares and participations. There is no requirement to prepare consolidated accounts.

Loans to subsidiaries and associated companies that are intended to be held until their maturity are measured at fair value via the fair value option in IFRS 9. However, the total change in value is recognised as part of the shareholding in the line net gains/losses, unlisted shares and participations.

Valuation of financial instruments

All of the Fund's investments are measured at fair value, and both realised and unrealised changes in value are recognised in the income statement. Consequently, the lines for net gains/losses per asset class include both realised and unrealised gains/losses. Equity instruments are held for trading and therefore measured at fair value through profit or loss. Debt instruments are held for trading and therefore measured at fair value through profit or loss. Loans to subsidiaries

and associated companies are intended to be held until their maturity, but the fair value option is applied here so that the National Pension Insurance Funds Act's requirement on measurement at fair value is met. The AP Funds monitor all of their assets based on fair value. A description of how the fair values of the Fund's various investments are determined is provided below.

Listed shares and participations

For shares and participations that are admitted to trade on a regulated market or trading venue, fair value is determined based on official quoted market prices on the balance sheet date according to the Fund's designated index supplier, most often the average price. Holdings that are not part of an index are valued at quoted prices observable in an active market. Paid brokerage commissions are recognised in net gains/losses on listed shares.

Unlisted shares and participations

For shares and participations that are not admitted to trade on a regulated market or trading venue, fair value is determined based on the valuation provided by the counterparty or other external party. This valuation is updated when a new valuation has been obtained and is adjusted for any cash flows up to the close of accounts. In cases where the Fund has reasonable grounds to consider the valuation to be incorrect, the valuation received is adjusted. Valuations of unlisted participations comply with International Private Equity and Venture (IPEV) Capital Valuation Guidelines or equivalent valuation policies and should be primarily based on arm's length transactions, although other valuation methods can be used. Unlisted real estate shares are valued based on the net worth method to the extent that the share has not been subject to transactions in a secondary market. Holdings in unlisted real estate companies are measured taking into consideration deferred tax liabilities at a value that is used in real estate transactions, which differs from the valuation performed in the annual accounts of the real estate companies.

Bonds and other fixed-income assets

For bonds and other fixed income assets, fair value is determined based on the official quoted market prices on the balance sheet date (most often the bid price) according to the Fund's designated index supplier. Holdings that are not part of an index are valued at quoted prices observable in an active market. For an instrument that is not traded on an active market and for which no reliable market prices are available, the instrument is valued using generally accepted valuation models in which cash flows are discounted to the applicable valuation curve. Interest income is recognised as interest calculated according to the effective interest rate method based on amortised cost. Amortised cost is the discounted present value of future payments, in which the discount rate is the effective rate of interest on the acquisition date. This means that acquired premiums and discounts are apportioned to periods over the remaining maturity or until the next interest adjustment date and are included in recognised interest income. Changes in value resulting from interest rate movements are recognised under net gains/losses for fixed-income assets, while changes in value resulting from foreign exchange movements are recognised under net gains/losses on foreign exchange movements.

Derivative instruments

For derivative instruments, fair value is determined based on quoted market prices at year-end. For an instrument that is not traded on an active market and for which no reliable market prices are available, the value of the instrument is established using generally accepted valuation models in which input data consists of observable market data. Derivative contracts with a positive fair value on the balance sheet date are recognised as assets, while contracts with a negative fair value are recognised as liabilities. Changes in value resulting from foreign exchange movements are recognised in the income statement

under net gains/losses on foreign exchange movements, while other changes in value are recognised under net gains/losses on derivative instruments.

Repurchase transactions

In a true repo (repurchase) transaction, the sold asset remains in the balance sheet and the proceeds received are recognised as a liability. The divested security is recognised in the balance sheet as a pledged asset under memorandum items. The difference between proceeds in the spot and forward legs is apportioned to periods over the maturity of the security and recognised as interest.

Securities lending

Securities on loan are recognised in the balance sheet at fair value, while compensation received for securities on loan is recognised as interest income in the income statement. Collateral received for securities on loan may consist of securities and/or cash. In cases where AP1 has a right of disposal over the received cash collateral, this is recognised in the balance sheet as an asset and a corresponding liability. In cases where the Fund does not have a right of disposal over the collateral, the collateral received is not recognised in the balance sheet but is stated separately in a note under the heading 'Pledged assets, contingent liabilities and obligations'. The value of securities on loan, as well as collateral for these, are also recognised under this heading.

Items recognised directly in net assets

Payments to and from the national pension system are recognised directly in the Fund's net assets.

Commission expenses

Commission expenses are recognised in the income statement as a deduction under operating income. These consist of external costs for management services, such as custodian bank fees and fixed fees for external managers, as well as fixed fees for listed funds. Performance-based fees, which are payable if the manager achieves a return over a predetermined level at which profit-sharing applies, are recognised as a deductible item from net investment income for the relevant asset class in the income statement. Management fees for unlisted shares and participations are recognised at cost and therefore included in unrealised gains/losses.

Operating expenses

All administrative expenses, excluding brokerage fees, fees for 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.

Taxes

AP1 is exempt from all income tax on domestic investments in Sweden. The dividend and coupon taxes imposed in certain countries are recognised net in the income statement under the relevant income item. With effect from 2012 the Fund is registered for value added tax and is therefore liable for VAT on acquisitions from outside Sweden. The Fund does not have the right to recover paid VAT. Expensed VAT is included in the relevant expense item. Amounts are in SEK million (SEK m), unless otherwise stated.

Note 1 – Net interest income

SEK m	2020	2019
Interest income		
Bonds and other fixed-income securities	1,292	2,219
Other interest income	294	121
Total interest income	1,586	2,340
Interest expenses		
Other interest expenses	-18	-14
Total interest expenses	-18	-14
Total net interest income	1,568	2,326

Note 2 – Net gains/losses, listed shares and participations

SEK m	2020	2019
Net gains/losses	25,876	22,325
Less brokerage commissions	-47	-48
Net gains/losses, listed shares and participations	25,829	22,277

Note 3 – Net gains/losses, unlisted shares and participations

SEK m	2020	2019
Capital gains/losses	3,288	3,792
Unrealised value changes	4,420	6,316
Net gains/losses, unlisted shares and participations	7,708	10,108

External management fees for unlisted assets are recognised as part of the cost of the asset and therefore burden the unrealised net gains/losses for unlisted assets. Refunded management fees accordingly have a positive effect on unrealised gains/losses.

During the year, a total of SEK 111 million (118) was paid in management fees for unlisted assets, of which SEK 111 million (118) permit refunds. Furthermore, SEK 0 million (225) was repaid during the year and the unrealised net gains/losses for unlisted shares and participations were therefore positively affected by SEK 0 million net (positively by SEK 107 million net).

Note 4 – Commission expenses

SEK m	2020	2019
External management fees, listed assets	-59	-167
Other commission expenses, incl. custodian bank expenses	-17	-19
Commission expenses	-76	-186

Commission expenses do not include performance-based fees. During the year, performance-based fees amounted to SEK 103 million (48) and reduce net investment income for the respective asset class.

Note 5 – Employees

Number of employees	2020			2019		
	Total	Men	Women	Total	Men	Women
Average number of employees	65.8	38.1	27.7	65.3	39.8	25.5
Closing no. of employees*	66	37	29	67	40	27
No. of executive management members at year-end	5	2	3	7	2	5

* At the end of 2020, 0 (1) individuals were employed on a project basis.

Personnel costs 2020, SEK thousands	Salaries and remuneration	Pension expenses	Social security fees*	Total
Board Chairman	207		65	272
Other Board members (8 people)	949		270	1,219
CEO (from Aug)	1,559	717	638	2,914
Acting CEO (to end Jul)	1,186	321	452	1,959
<i>Executive management team, excl. CEO</i>				
Chief Investment Officer	3,316	1,006	1,288	5,610
Head of Communications	1,303	428	517	2,248
Head of Business Support (to end Sep)	895	907	503	2,305
Head of Operations	1,748	681	717	3,146
Head of Middle Office & Risk (to end Sep)	1,159	286	434	1,879
Head of Business Support & Development (from Aug)	544	179	215	938
Head of HR (to end Sep)	1,098	717	521	2,336
Other employees**	62,329	18,747	24,181	105,257
Total	76,293	23,989	29,801	130,083
Other personnel costs				4,085
Total personnel costs				134,168

* Payroll overheads also include the cost of payroll tax.

** Other employees include salary during the notice period, pension provision and severance pay for three individuals. They total SEK 6.0 million.

Personnel costs 2019, SEK thousands	Salaries and remuneration	Pension expenses	Social security fees*	Total
Board Chairman	113		27	140
Other Board members (8 people)	550		173	723
CEO (incl. salary during the notice period and severance pay)	9,376	2,948	3,292	15,616
Acting CEO (as of 1 Sep)	651	158	244	1,053
<i>Executive management team, excl. CEO</i>				
Chief Investment Officer	3,238	916	1,241	5,395
Head of Communications (as of 4 Mar)	1,131	264	421	1,816
Head of Business Support	1,233	1,121	662	3,016
Head of IT	1,711	691	709	3,111
Head of Middle Office & Risk	1,522	375	571	2,468
General Counsel (until 31 Aug then Acting CEO)	853	194	316	1,363
Head of HR	1,424	866	660	2,950
Other employees	61,884	19,503	24,180	105,567
Total	83,686	27,036	32,496	143,218
Other personnel costs				5,418
Total personnel costs				148,636

* Payroll overheads also include the cost of payroll tax.

** Other employees include salary during the notice period and severance pay for one individual. In total, incl. the CEO's salary during the notice period and severance pay, these items (incl. social security fees and pension expenses) amount to SEK 15.4 million.

> Note 5 continued

AP1's remuneration policy for senior executives is based on the Government's guidelines for remuneration to senior executives and other employees. There were no deviations from the policy or guidelines in 2019 or 2020.

Salaries and other benefits

Board fees are determined by the Government. The Fund governance report provides information about fees and attendance for each Board member. The Board of Directors determines the terms of employment for the CEO, following preparation in the remuneration committee. All employees have individual employment contracts. Since 1 January 2010, AP1 has no variable remuneration. In the event of termination on the part of the employer, the notice period for the CEO is 12 months. For members of the executive management team and other employees it is between 2 and 6 months. A few agreements entered before April 2009 contain divergences. For cost-related reasons, these agreements are not being renegotiated.

In the event of the Fund issuing notice of termination of employment, severance pay can equal a maximum of 18 months' salary. The severance pay shall only consist of the fixed monthly salary, without the addition of benefits. Both salary during the notice period and severance pay shall be reduced by an amount equal to any income from new employment or business activity during the pay-out period. Severance pay is never paid out beyond 65 years of age.

Pensions and similar benefits

The employment contract of the CEO includes an obligation for the Fund to pay pension premiums equal to 30 per cent of salary. For the portion of salary granting entitlement under the national pension, the pension premium is reduced to 11.5 per cent.

As of 1 February 2013, AP1 has switched to a defined contribution pension plan, BTP1, for newly hired employees. The pension agreement has been signed and agreed on between the parties. This means that the Fund has two occupational pension plans – BTP1, which is a defined contribution plan, and BTP2, which is a defined benefit plan.

All employees have the option of participating in a salary exchange scheme in which gross salary is exchanged for pension premiums. The pension premium is then increased by 5.8 per cent, which corresponds to the difference between payroll tax and social security fees. The premium exchange is therefore cost-neutral for the Fund. Other benefits are taxable and amount to smaller amounts.

Note 6 – Other administrative expenses

SEK th	2020	2019
Costs for premises	-13,519	-13,208
Purchased services	-19,230	-19,979
Information and data expenses	-54,793	-52,734
Other administration expenses	-3,906	-4,375
Other administrative expenses	-91,448	-90,296
The amount for purchased services includes remuneration for the Fund's auditor, PwC, broken down into the following assignments:		
Audit services	-851	-691
Other assignments, primarily tax related	-75	-307
Total remuneration to auditors	-926	-998

Note 7 – Listed shares and participations

Fair value, SEK m	31/12/2020	31/12/2019
Equities, Swedish	61 824	30,235
Equities, non-Swedish	91,833	69,088
Participations in Swedish funds	1,035	–
Participations in non-Swedish funds	30,953	27,749
Total fair value	185,645	127,072

Five largest Swedish equity holdings

Name	Number of shares	Fair value
Ericsson (Lm) B	34,806,227	3,398
Atlas Copco A	8,011,601	3,374
Volvo B	16,986,868	3,292
Investor B	5,464,339	3,274
Sandvik	13,330,856	2,684
Total fair value		16,022

Five largest non-Swedish equity holdings

Name	Number of shares	Fair value
Apple	3,448,900	3,758
Microsoft Corp	1,482,400	2,708
Nordea Bank	38,860,391	2,612
Amazon.com	88,500	2,367
Alphabet	126,600	1,822
Total fair value		13,267

A complete list of all listed holdings at 30 June and 31 December is available on the Första AP-fonden website, www.ap1.se.

Note 8 – Unlisted shares and participations

Fair value, SEK m	31/12/2020	31/12/2019
<i>Swedish unlisted shares and participations:</i>		
Subsidiaries and associated companies	45,341	41,312
<i>Non-Swedish unlisted shares and participations:</i>		
Subsidiaries and associated companies	5,763	6,072
Other unlisted shares and participations	41,041	47,049
Total	92,145	94,433

Subsidiaries and associated companies

	Domicile	Corp. ID No.	Number of shares	Holding, %	Net Investment Income	Equity	Fair value
Swedish shares and participations, subsidiaries and associated companies							
Aros Bostad IV AB	Stockholm	559032-9503	14,747	29	61*	1,016*	392
Ellevio Holding 1 AB	Stockholm	559005-2444	6,250	13	-1,004*	4,126*	1,281
Secore Fastigheter AB	Stockholm	559018-9451	25,000	50	44*	797*	554
Polhem Infra KB	Stockholm	969789-2413	–	33.3	209	1,406	469
Urbanæa Fastigheter AB	Stockholm	559201-2008	–	99	-0.3*	0,7*	196
Vasakronan Holding AB	Stockholm	556650-4196	1,000,000	25	3,710	70,869	20,956
Willhem AB	Gothenburg	556797-1295	770,381,717	100	2,774	17,979	21,493
							45,341
Non-Swedish shares and participations, subsidiaries and associated companies							
First Australian Farmland Pty Ltd	Australia	155,718,013		100	-40**	369**	333
Chapone S.à.r.l	Luxembourg	B 200297		100	342**	2,509**	2,650
Jutas Invest Finland OY	Finland	2793175-3		100	-0.9**	233**	205
OMERS Farmoor 3 Holdings B.V.	Netherlands			100	-370**	2,797**	2,207
ASE Holdings S.à.r.l	Luxembourg	B 169327		38	91**	525**	79
ASE Holdings III S.à.r.l	Luxembourg	B 207618		35	182**	878**	289
							5,763

* Pertains to figures released 31/12/2019

** Refers to 31/12/2019 translated at the exchange rate on 31/12/2019

Five largest holdings, unlisted shares and participations

	Domicile	Holding, %	Cost
FRM Investment Management L.P.	Cayman	100	13,184
Fourth Stockholm Global Private Equity L.P., Hamilton Lane	USA	100	9,923
WP North America Private Equity II L.P.	US	99	63
Fifth Stockholm Global Private Equity L.P., Hamilton Lane	US	100	3,490
FIRST II Private Equity Investments, L.P. Inc, LGT	Guernsey	100	1,057

A complete list of all unlisted shares and participations is available on the AP1 website, www.ap1.se

Note 9 – Bonds and other fixed-income assets

Fair value, SEK m	31/12/2020	31/12/2019
Breakdown by type of issuer		
Swedish state	24,316	23,978
Swedish municipalities	2,339	2,439
Swedish mortgage institutions	3 257	1,532
Other Swedish companies:		
Financial companies	1,422	2,211
Non-financial companies	6,675	8,550
Foreign states	45,329	67,077
Other foreign issuers	19,048	25,613
Total	102,386	131,400
Breakdown by type of instrument		
Inflation-indexed bonds	9,997	36,397
Other bonds	85,071	87,828
Treasury bills	132	–
Certificates	–	–
Other instruments	7,186	7,175
Total	102,386	131,400

Note 10 – Derivatives

Fair value, SEK m	31/12/2020 Derivative instruments with:		31/12/2019 Derivative instruments with:	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Equity-linked instruments				
Options				
Held		–17	794	
Issued				–529
Swaps	339	–134	11	–176
Futures			4	0
Total	339	–151	809	–705
Interest-linked instruments				
Swaps	90	–171	22	–216
Futures			17	0
Total	90	–171	39	–216
Currency-linked instruments				
Swaps	7,166	–441	3,508	–605
Futures				
Options				
Total	7,166	–441	3,508	–605
Total derivative instruments	7,595	–763	4,356	–1,526

Derivative positions with a negative value amounting to SEK -243 million (-392) have a maturity exceeding 12 months. For maturity analysis thereof, see Note 18.

Note 11 – Other assets

SEK m	31/12/2020	31/12/2019
Incoming payments, unsettled transactions	28	16
Receivables from foreign tax authorities	159	149
Reinvested cash collateral for derivative positions	–	655
Other assets	157	162
Total other assets	344	982

Note 12 – Prepaid expenses and accrued income

SEK m	31/12/2020	31/12/2019
Accrued interest income	565	688
Accrued dividends	80	116
Other prepaid expenses and accrued income	1	1
Prepaid expenses and accrued income	646	805

Note 13 – Other liabilities

SEK m	31/12/2020	31/12/2019
Outgoing payments, unsettled transactions	3	50
Received cash collateral for derivative positions	–	655
Other	28	41
Other liabilities	31	746

Note 14 – Deferred income and accrued expenses

SEK m	31/12/2020	31/12/2019
Accrued management fees	13	27
Other accrued expenses	6	19
Deferred income and accrued expenses	19	46

Note 15 – Net assets

SEK m	2020	2019
Opening net assets	365,759	323,662
Net flow to/from the pension system:		
Incoming pension contributions	73,872	72,344
Outgoing pension disbursements	–81,564	–78,681
Transfer of pension rights to the EC	–2	–
Settlement of pension rights	2	3
Outgoing administrative contribution to the Swedish Pensions Agency	–210	–185
Total net outflow to the pension system	–7,902	–6,520
Net investment income after expenses for the year	34,780	48,617
Closing net assets	392,637	365,759

Note 16 – Memorandum items

SEK m	31/12/2020	31/12/2019
Pledged assets and equivalent collateral for own liability	none	none
Securities on loan against other collateral*	–	–
Collateral provided for futures transactions	7,722	2,382
Collateral provided for OTC transactions**	113	51
Other pledged assets and equivalent collateral	7,835	2,433
Investment commitments, unlisted holdings	32,276	27,401
Undertakings	32,276	27,401
Total memorandum items	40,111	29,834
* Collateral received for securities on loan	–	–
** Collateral received for OTC transactions	5,678	2,481

Note 17 – Financial instruments, price and valuation hierarchy

This Note provides disclosures about how fair value is determined for the financial instruments used by the AP Funds. The Funds' accounting and valuation policies are in accordance with the international reporting standard. The objective is to present information about the fair values of financial assets and liabilities and to ensure transparency and comparability between different companies. This means that the disclosures about valuation of assets and liabilities in the balance sheet take account of whether trade occurs on an active or inactive market and whether quoted prices are available at the time of valuation.

Valuation of the Fund's net assets – market-listed assets

The majority of the Fund's assets are market listed, which means that they are traded on an active market at prices that represent actual and regularly occurring market transactions. The majority of the Fund's market listed assets are valued daily at their quoted market prices and consist of equities, bonds, derivatives, funds and foreign exchange. Some Fund holdings with listed holdings in underlying securities are valued less frequently than daily, e.g. weekly or every other week. A handful of Fund holdings with listed holdings in underlying securities are valued only once a month.

For OTC derivatives the valuation is based on either theoretical modelling or on a valuation from an external party. For the Fund's holdings of currency futures the valuation is based on theoretical modelling, whereby the model's subjective feature at present consists exclusively of the choice of yield curve and methodology for calculating and forecasting future value (interpolation and extrapolation). The same methodology is applied for deposits, short-dated commercial papers and similar instruments. For other OTC derivatives, valuation is performed exclusively by an external party as a comparison to the Fund's own valuations. In periods when the market lacks liquidity for market listed securities, a higher degree of subjectivity is required in the valuation process. At such times, the market features sharply increased spreads between bid and ask prices, which can also differ substantially between market participants. At such times, Funds have used a conservative approach to valuation.

Valuation of net assets – alternative investments

For assets that are not valued in an active market, different valuation methodologies are applied to determine fair value. Fair value equals the price that would have been received or paid in an orderly transaction between two independent parties. AP1's unlisted investments consist of investment in hedge funds, risk parity funds, private equity funds, real estate companies and real estate funds. Investments in unlisted hedge funds and risk parity funds are normally valued with a one-month lag. These funds invest primarily in market listed securities. Valuation of fund participations is based on the same principles as for market listed assets. Investments in private equity funds are valued according to the IPEV (International Private Equity and Venture Capital Guidelines) or similar principles. According to IPEV, the valuation can be based on completed transactions, market multiples in valuation, the net asset value or discounting of future cash flows. Valuation of the Fund's investments in private equity funds is based on the most recent available reporting. Since reporting from private equity funds is received with a lag, the Fund's annual accounts are generally based on reports at 30 September adjusted for cash flows for the subsequent period and up to the closing date. In a situation with rising returns in

the equity markets, this means that the Fund has a lower valuation in the annual accounts than that which is later reported by private equity fund managers and vice versa.

Investments in real estate companies are valued in accordance with IFRS and industry practice as established in IPD's recommendations. The valuation is based on discounting of future rental income, operating expenses and sales prices by market-based return requirements. With regard to valuation of deferred tax in a real estate company, this is measured at fair value, i.e. a discounting of future tax effects by an interest rate that is relevant for the individual company. Investments in real estate funds are valued according to recommendations from industry organisations such as INREV.

Fair value

The fair value of a financial instrument is defined as the amount for which an asset could be transferred or a liability settled between knowledgeable and willing parties in an arm's length transaction. Depending on which market data is available for valuation of the financial instruments, these are broken down into three levels:

Level 1: Financial instruments traded in an active market. The market is deemed active if there are quoted prices that are regularly updated with a greater frequency than once a week and if the prices are used unaltered to settle trades in the market.

Level 2: Financial instruments* traded on a market that is not considered active but for which there are quoted prices that are used unaltered to settle trades, or observable input data that is regularly updated for indirect valuation using generally accepted models.

Level 3: Instruments belong to level 3 if they cannot be included in level 1 or level 2. In such cases, no observable market data can be used for valuation. Valuations are based on information with consideration to the circumstances, and may require a significant element of estimation from the Fund's management.

Active market

An active market is one in which quoted prices are readily and regularly available from an exchange, a trader or similar and where transactions are priced on commercial terms. It is virtually only equities for listed companies, currencies and fixed-income securities issued by governments, municipalities, banks or major corporations that are traded on an active market and can thus be included in level 1. For example, currency derivatives are traded on very active markets, but are classified at level 2 since the value must be derived from prices of other instruments.

Inactive market

An inactive market features a low trading volume and a much lower level of trading activity than on an active market. Available prices vary sharply over time or between market participants. In most cases, the prices are not current.

*In classification to an appropriate level in the valuation hierarchy, financial instruments shall be assessed without screening.

> Note 17 continued

Financial assets and liabilities, closing balance 31/12/2020, SEKm	Level 1	Level 2	Level 3	Total
Financial assets				
Shares and participations, listed	184,270		1,375	185,645
Shares and participations, unlisted			92,145	92,145
Bonds and other fixed-income assets	90,057	5,097	7,232	102,386
Derivatives		7,595		7,595
Total assets valued at	274,327	12,692	100,752	387,771
Financial liabilities				
Derivatives		763		-763
Total liabilities valued at	0	763	0	-763
Financial assets and liabilities	274,327	11,929	100,752	387,008

Financial assets and liabilities, closing balance 31/12/2019, SEKm	Level 1	Level 2	Level 3	Total
Financial assets				
Shares and participations, listed	125,379		1,692	127,071
Shares and participations, unlisted			94,433	94,433
Bonds and other fixed-income assets	117,996	6,543	6,861	131,400
Derivatives		4,356		4,356
Total assets valued at	243,375	10,899	102,986	357,260
Financial liabilities				
Derivatives		-1,526		-1,526
Total liabilities valued at	0	-1,526	0	-1,526
Financial assets and liabilities	243,375	9,373	102,986	355,734

Change, level 3

SEK m	2020	2019
Shares and participations, listed, opening balance	1,692	2,293
Reclassification from level 2, opening balance 2020		
Buy	1	234
Sell		-1,071
Change in value	-318	236
Change in shares and participations, listed	-317	-601
Shares and participations, listed, closing balance	1,375	1,692
Shares and participations, unlisted, opening balance	94,433	83,537
Reclassification from level 1, opening balance 2019		169
Buy	4,484	7,326
Sell	-9,088	-9,753
Change in value	2,316	13,154
Change in shares and participations, unlisted	-2,288	10,727
Shares and participations, listed, closing balance	92,145	94,433
Bonds and other fixed-income assets, opening balance	6,861	4,643
Reclassification from level 1, opening balance 2019		1,498
Buy	1,037	3,537
Sell	-468	-2,977
Change in value	-198	160
Change in bonds and other fixed income assets	371	720
Bonds and other fixed-income assets, closing balance	7,232	6,861
Total change, level 3	-2,234	10,846

Of the change in value reported above, SEK -3,339 million (8,011) was unrealised on the balance sheet date.

The Fund has the majority of its investments at level 1 where the valuations are obtained from independent and reputed valuation sources. Level 3 listed equities refer to listed fund participations, for which prices are updated less frequently than every seventh day.

Note 18 – Financial risks

Sensitivity analysis: Reporting of market risk

Forecast risk

The assets' expected market risk is presented in the sensitivity analysis according to the table below. The calculations are based on the Fund's portfolio composition at 31 December 2020 and historical market returns.

The sensitivity analysis is carried out through simulation of return outcomes for the Fund's assets. By using the historical return breakdown in the simulation, any extreme outcomes are taken into account. Hence, no assumptions about normal distribution are necessary. The simulations shown in the table are created for a short-term risk perspective. The simulation uses a one-year data history and risk is presented for a horizon of a one-day change in value. The simulation is based on a joint standard that has been agreed on by the First, Second, Third and Fourth AP Funds.

The simulation is shown with two different but related risk measures. Value at risk shows the outcome exceeded by the Fund with 95 per cent probability. The expected shortfall measure estimates the extent of the loss that may occur with 5 per cent probability. Expected shortfall shows the expected loss given that the loss is greater than the value at risk measure.

The Fund's risk measured as forecast volatility amounted to 18.0 per cent annualised for the Fund's total portfolio at 31 December. The foreign exchange asset class shows the Fund's total currency risk, while

the other assets in the table are hedged for currency risk. The table shows the diversification gain achieved through the Fund's investment in different assets, which together reduce the Fund's risk of loss compared to the risks specific to each individual asset.

Realised risk

Average realised risk is calculated based on a joint standard that has been agreed on by the First, Second, Third and Fourth AP Funds and which is founded on the principle that calculation of risk shall reflect the market valuation of the Fund's total assets. The valuation frequency is established as quarterly and the period for calculation is established at ten years. Consequently, for the total portfolio the realised standard deviation for the past ten years has been expressed at an annual rate based on quarterly data.

AP1's average realised risk for the past ten-year period was 7.2 per cent based on this calculation methodology.

The First, Second, Third and Fourth AP Funds have also agreed to report average realised risk for the past year both for the total portfolio and for the assets for which a market value is obtained daily. For this calculation of standard deviation, daily data is used. The average realised risk during the year was 10.6 per cent for the total portfolio and 15.6 per cent for the part of the portfolio for which a market value is obtained daily. The share of the portfolio for which a market value is obtained daily was 75 per cent at the end of the year.

Financial risks

	Volatility annualised %		Value at risk annualised, SEK m		Expected shortfall annualised, SEK m		Value at risk one day, SEK m		Expected shortfall one day, SEK m	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Sensitivity analysis, market risk, at 31 Dec										
Equities	25.6	8.5	-78,419	-18,685	-130,666	-29,423	-4,863	-1,159	-8,104	-1,825
Fixed income	2.5	2.6	-4,183	-5,526	-9,210	-7,769	-259	-343	-571	-482
Alternative investments	30.4	7.4	-48,921	-12,820	-79,718	-18,348	-3,034	-795	-4,944	-1,138
Foreign exchange	9.0	6.9	-7,555	-4,858	-9,622	-6,194	-469	-301	-597	-384
Contribution from Diversification	-3.4	-2.8	22,211	16,660	26,842	25,821	1,377	1,033	1,665	1,601
Liquid portfolio	13.1	4.0	-66,522	-18,971	-126,958	-27,060	-4,125	-1,177	-7,874	-1,678
Total portfolio	18,0	4.2	-116,867	-25,229	-202,374	-35,911	-7,248	-1,565	-12,551	-2,227

Liquidity risk, at 31 Dec

Maturity structure, Maturity in years, SEK m	< 1		1-3		3-5		5-10		> 10		Total balance, SEK m	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019		
Nominal, government	4,648	4,762	20,154	4,602	11,965	10,483	13,719	19,478	11,838	13,813	62,323	53,139
Nominal, credit	4,627	6,379	4,716	7,285	5,225	4,749	8,954	13,775	3,852	4,256	27,375	36,444
Inflation-indexed	0	6,085	632	9,194	1,287	7,869	5,696	11,046	5,262	5,353	12,877	39,547
Total portfolio	9,275	17,226	25,502	21,082	18,477	23,101	28,369	44,300	20,952	23,422	102,575	129,130

Derivative positions with a negative fair value, maturity exceeding 12 months, at 31 Dec

Maturity structure, Maturity in years, SEK m	1-3		3-5		5-10		> 10		Total balance, SEK m	
	2020	2019	2020	2019	2020	2019	2020	2019		
Equity-linked instruments	-134	-176	-	-	-	-	-	0	-134	-176
Interest-linked instruments	-	-103	-109	-113	-	-	-	0	-109	-216
Currency-linked instruments	-	0	-	-	-	-	-	0	-	-
Total	-134	-279	-109	-113	0	0	0	0	-243	-392

> Note 18 continued

Credit risk, at 31 Dec

Rating SEK m *	AAA		AA		A		BBB		<BBB		Total balance, SEK m	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Nominal, government	27,655	17,152	23,590	15,615	7,078	14,148	4,000	6,225	0	0	62,323	53,139
Nominal, credit	4,937	7,524	5,441	4,778	3,734	5,836	3,909	5,505	9,354	12,802	27,375	36,444
Inflation-indexed	4,538	13,923	6,358	25,218	1,981	406	0	0	0	0	12,877	39,547
Total	37,130	38,598	35,389	45,611	12,793	20,389	7,910	11,730	9,354	12,802	102,575	129,130

* Reporting of credit risk for fixed-income securities based on ratings issued by reputed rating agencies.

Note 19 – Financial assets and liabilities that are netted or governed by netting agreements

31/12/2020, SEK m	Gross amount	Netted amount in balance sheet	Net amount in the balance sheet	Related amounts that cannot be netted			Other*	Total in the balance sheet
				Framework agreement on netting	Collateral received	Net amount		
Assets								
Unsettled assets	0	0	0	0	0	0	3	3
Derivatives	–	–	7,595	763	5,776	1,056	0	7,595
Total assets	0	0	7,595	763	5,776	1,056	3	7,598
Liabilities								
Unsettled liabilities	0	0	0	0	0	0	2	2
Derivatives	–	–	763	763	0	0	0	763
Total liabilities	0	0	763	763	0	0	2	765

31/12/2019, SEK m	Gross amount	Netted amount in balance sheet	Net amount in balance sheet	Related amounts that cannot be netted			Other*	Total in the balance sheet
				Framework agreement on netting	Collateral received	Net amount		
Assets								
Unsettled assets	0	0	0	0	0	0	21	21
Derivatives	–	–	4,336	1,526	2,481	329	20	4,356
Total assets	0	0	4,336	1,526	2,481	329	41	4,377
Liabilities								
Unsettled liabilities	0	0	0	0	0	0	50	50
Derivatives	–	–	1,526	1,526	0	0	0	1,526
Total liabilities	0	0	1,526	1,526	0	0	50	1,576

* Other instruments in the balance sheet that are not governed by netting agreements

The table above shows the financial assets and liabilities that are presented net in the balance sheet, or that carry rights associated with legally binding framework agreements regarding netting or similar agreements. Financial assets and liabilities are recognised net in the balance sheet when the Fund has a legal right to perform netting in normal business conditions and in the event of insolvency, and if there is an intention to pay net proceeds or realise the asset and si-

multaneously settle the liability. Financial assets and liabilities that are governed by legally binding framework agreements regarding netting or similar agreements that are not presented net in the balance sheet are arrangements that commonly come into legal effect in the event of insolvency, but not in normal business conditions or arrangements in which the Fund does not intend to settle the positions simultaneously.

Note 20 – Related parties

The table shows AP1's transactions, outstanding dealings and obligations with related parties in accordance with definitions in IAS 24. Related parties to AP1 are considered to be subsidiaries and associated companies in which the Fund's ownership is a minimum of 20 per cent, and the Fund's Board members and executive management team.

See Note 5 for information regarding salaries and remuneration for Board members and the executive management team.

Counterparty and ownership	31/12/2020	31/12/2019	Counterparty and ownership	31/12/2020	31/12/2019
AROS Bostadsutveckling, 29%			ASE Holdings S.à.r.l, 38 %		
Interest income		–	Interest income	29	28
Proprietary loans		–	Proprietary loans	253	255
Shareholder contribution during the year	28	90	Shareholder contribution during the year	–	–
Investment commitments	36	64			
Chapone S.à.r.l, 100%			ASE Holdings III S.à.r.l, 32%		
Interest income	52	47	Interest income	15	12
Proprietary loans	1 561	1,405	Proprietary loans	195	196
Shareholder contribution/repaid during the year	132	86	Shareholder contribution during the year	18	70
Investment commitments	2,023	1,887	Investment commitments	170	228
Secore Fastigheter AB, 50%			Jutas Invest Finland OY, 100%		
Interest income	–	–	Interest income	29	25
Proprietary loans	–	–	Proprietary loans	453	378
Shareholder contribution during the year	–	–	Shareholder contribution during the year	–	–
Investment commitments	608	608	Investment commitments	503	588
Vasakronan Holding AB, 25%			First Australian Farmland Pty Ltd, 100%		
Rent for premises*	12	12	Interest income	18	37
Interest income	–	–	Proprietary loans	486	485
Proprietary loans	–	–	Shareholder contribution during the year	–	–
Shareholder contribution during the year	–	–			
Undertaking, on the request of Vasakronan, to purchase commercial papers in the company, up to the highest total settlement amount at any time of:	4,500	4,500	OMER Farmoor 3 Holdings B.V., 100%		
			Interest income	–	–
Willhem AB, 100%			Proprietary loans	–	–
Interest income	–	–	Shareholder contribution during the year	–	–
Proprietary loans	–	–			
Shareholder contribution during the year	–	–	Polhem KB, 33%		
Undertaking, on the request of Willhem, to purchase commercial paper in the company, up to the highest total settlement amount at any time of:	6,000	6,000	Interest income	–	–
			Proprietary loans	–	–
			Shareholder contribution during the year	90	312
			Investment commitments	2,597	2,687
			Urbanea Fastigheter AB 98%,		
			Interest income	–	–
			Proprietary loans	–	–
			Shareholder contribution during the year	187	2
			Investment commitments	304	491

* AP1 rents office premises from Vasakronan on market terms.

The Board of Directors' 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 policies developed by the AP Funds, that the information therein gives a true and fair presentation of the actual conditions, and that nothing of material significance has been omitted that could affect the presentation of the Fund created by this annual report.

Stockholm den 23 February 2021

Urban Hansson Brusewitz
Chairman

Anna Hesselman
Deputy Chairman

Kent Eriksson
Board member

Peter Hansson
Board member

Åsa-Pia Järliden Bergström
Board member

Per Klingbjer
Board member

Charlotte Nordström
Board member

Eva Redhe
Board member

Erik Sjöström
Board member

Our auditors' report was submitted on 23 February 2021

Peter Nilsson
Authorised Public Accountant
Appointed by the Swedish Government

Helena Kaiser de Carolis
Authorised Public Accountant
Appointed by the Swedish Government

Auditors' Report

For Första AP-fonden, Corp. ID No. 802005-7538

Report on the annual accounts *Opinion*

We have audited the annual accounts of Första AP-fonden for the year 2020. The Fund's annual accounts are on pages 44–63 of this document.

In our opinion the annual accounts have been prepared in accordance with the National Pension Insurance Funds Act (2000:192) and present fairly, in all material aspects, the financial position of Första AP-fonden as of 31 December 2020 and its financial performance for the year then ended in accordance with the National Pension Insurance Funds Act. The statutory administration report is consistent with the other parts of the annual accounts.

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

Basis for our opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibility as set out in these standards is described in more detail in the section on "The auditor's responsibility". We are independent of Första AP-fonden in accordance with generally accepted auditing standards in Sweden and we have otherwise fulfilled our professional ethical responsibility in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the annual accounts

This document also contains information other than the annual accounts, and this can be found on pages 1–43 and 66–77.

The Board of Directors and the CEO are responsible for this other information.

Our opinion regarding the annual accounts does not extend to this information, and we do not provide any opinion with assurance regarding this other information.

In connection with our audit of the annual accounts, it is our responsibility to read the information identified above and to consider whether or not the information is, to a material extent, inconsistent with the annual accounts. During this review, we also take into consideration the knowledge we have otherwise gained during the audit and assess whether the information otherwise seems to contain material misstatement.

If, based on the work carried out regarding this information, we conclude that the other information contains a material misstatement, we are obliged to report it. We have nothing to report in this respect.

The Board of Directors' and the CEO's responsibility

The Board of Directors and the CEO are responsible for the preparation of the annual accounts and for ensuring that they provide a true and fair presentation in accordance with the National Pension Insurance Funds Act. The Board of Directors and CEO are also responsible for such internal control as the Board of Directors and the CEO deem necessary for the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

While preparing the annual accounts, the Board of Directors and the CEO are responsible for assessing the Fund's ability to continue its operation. They disclose, where applicable, conditions that could affect the Fund's ability to continue its operation and to apply the going concern assumption.

The going concern assumption, however, is not applied if the Board of Directors and the CEO intend to liquidate the Fund, close down the operation or do not have a realistic alternative to one of these options.

The auditor's responsibility

Our goals are to express an opinion with reasonable assurance on whether the annual accounts as a whole contain any material misstatements, whether due to fraud or error, and to provide an auditors' report containing our opinions.

Reasonable assurance is a high degree of certainty, but it is no guarantee that an audit performed in accordance with ISA and generally accepted auditing standards in Sweden will always discover a material misstatement should one exist. Misstatements can occur due to fraud or error, and are deemed to be material if individually or jointly they can reasonably be expected to affect the financial decisions made by users based on the annual accounts.

As part of an audit performed in accordance with ISA, we use professional judgement and we take a professionally sceptical approach during the entire audit. Furthermore:

- We identify and assess the risks of material misstatement in the annual accounts, whether due to fraud or error, we design and perform audit procedures, partly based on these risks, and we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. There is a higher risk of not discovering a material misstatement due to fraud than one due to error as fraud may entail acting in collusion, falsification, intentional omissions, incorrect information or disregarding internal control.

- We acquire an understanding of the part of the Fund's internal control that is important to our audit in order to design audit procedures that are appropriate taking into account the circumstances, but not in order to express an opinion on the efficacy of the internal control.
- We evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and pertaining disclosures made by the Board of Directors and the CEO.
- We conclude on the appropriateness of the Board of Directors' and the CEO's use of the going concern assumption in preparing the annual accounts. Based on the audit evidence obtained, we conclude on whether there are any material uncertainties relating to any events or conditions that could result in significant doubt about the Fund's ability to continue the operation. If we conclude that there is a material uncertainty, we must draw attention in the auditors' report to the disclosures in the annual accounts about the material uncertainty, or, if such disclosures are insufficient, we must modify our opinion of the annual accounts. Our conclusions are based on the audit evidence obtained up until the date of the auditors' report. Future events or conditions may, however, mean that the Fund is no longer able to continue its operations.
- We evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts render the underlying transactions and events in a way that provides a true and fair presentation.

We must inform the Board of Directors of the planned scope and direction of the audit, as well as the timing of the audit, for example. We must also provide information about significant observations during the audit, including any significant shortcomings we identify in the internal control.

Report on other legal and regulatory requirements

Opinion

In addition to our audit of the annual accounts, we have examined the inventory of the assets managed by Första AP-fonden. We have also examined whether there are any comments in general concerning the Board of Directors' and the CEO's administration of Första AP-fonden for 2020.

Our audit has not resulted in any comments concerning the inventory of assets or in general regarding the administration of the Fund.

Basis for our opinion

We have conducted our audit in accordance with generally accepted auditing standards in Sweden. Our responsibility as set out in these standards is described in more detail in the section on "The auditor's responsibility". We are independent of Första AP-fonden in accordance with generally accepted auditing standards in Sweden and we have otherwise fulfilled our professional ethical responsibility in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The Board of Directors' and the CEO's responsibility

The Board of Directors and the CEO are responsible for the preparation of the accounting documents and for the management of the Fund's assets in accordance with the National Pension Insurance Funds Act.

The Board of Directors is responsible for Första AP-fonden's organisation and for the management of Första AP-fonden's affairs. This includes, for example, continuously assessing Första AP-fonden's financial situation and ensuring that Första AP-fonden's organisation is designed so that accounting, asset management and Första AP-fonden's financial affairs are otherwise controlled in an adequate manner. The CEO shall manage the ongoing administration in accordance with the Board of Directors' guidelines and instructions and, for example, take the necessary measures to ensure that Första AP-fonden's accounting is fulfilled in conformity with legislation and to ensure that asset management is handled in an adequate manner.

The auditor's responsibility

Our goal regarding the audit of the administration, and thereby our opinion on the administration, is to obtain audit evidence in order to assess with reasonable assurance whether or not there is any comment concerning the Board of Directors' and the CEO's administration of Första AP-fonden for the 2020 financial year.

Reasonable assurance is a high degree of certainty, but it is no guarantee that an audit performed in accordance with generally accepted auditing standards in Sweden will always discover measures or omissions that can result in comments.

As part of an audit performed in accordance with generally accepted auditing standards in Sweden we use professional judgement and we take a professionally sceptical approach during the entire audit. The review of the administration is primarily based on the audit of the annual accounts.

Decisions regarding additional audit procedures carried out are based on our professional judgement with the starting points of risk and material aspects. This means that we focus the review on such procedures, areas and conditions that are material to the operation and where deviations and non-compliance would have particular significance for Första AP-fonden's situation. We review and test the decisions made, bases for decisions, measures taken and other conditions that are relevant to our opinion of the administration.

Stockholm, 23 February 2021

Peter Nilsson

Authorised Public Accountant

Appointed by the Swedish Government

Helena Kaiser de Carolis

Authorised Public Accountant

Appointed by the Swedish Government

Risks and risk management

API's mandate to create returns on pension assets means that the Fund is naturally exposed to financial risks, such as market risk or credit risk. Operational risks can arise in asset management and relate to the risk of losses due to inadequate or failed processes, systems, staff or external events such as fraud. Losses may be in the form of financial losses or lost earnings, additional work, reputational damage and/or lost confidence in the operation.

Financial risks

AP1 consciously takes financial risks in order to generate returns and benefit from risk premiums. Financial risks enable the Fund, when employed correctly, to increase its return on invested capital. Good, controlled risk management is therefore essential to successful

asset management. Risks have to be forecast prior to an investment and controlled afterwards. One key component of the long-term investment strategy is to diversify risk in the portfolios as far as possible without detracting from high returns.

Operational risks

The goal of managing operational risks is to create and maintain a good control culture and reduce material operational risks within the Fund. A clear risk policy expresses the approach chosen for sound management of operational risks and guides ongoing efforts to reduce such risks.

Financial risks

Risk

Financial risks

Market risk

Market risk – the risk that the fair value of, or future cash flow from, a financial instrument varies over time through, for example, changes in share prices, interest rates or exchange rates.

Issuer risk

Issuer risk – the risk that an issuer will become insolvent and be unable to fulfil its obligations.

Counterparty and delivery risk

Counterparty risk

Counterparty risk – the risk that a counterparty will become insolvent and be unable to fulfil its obligations. Losses often arise long before payments are suspended.

Delivery risk

Delivery risk or settlement risk – the risk that a counterparty is unable to fulfil an agreement at the time of settlement.

Liquidity risk

Liquidity risk – the risk that securities cannot be converted at the intended time without a considerable price cut or high costs.

Foreign exchange exposure

The degree of foreign exchange exposure is a risk factor that could affect the value of all asset classes traded in a currency other than the Swedish krona.

Management

The Fund analyses and follows up market risk at total fund level, by asset class and by mandate with the help of various tools, tests and scenario analyses. Ongoing ad hoc analyses are also carried out to shed light on risk-taking in different parts of the portfolio. In addition, risk models are evaluated and the limit structure is evaluated and reviewed.

Issuer risks are restricted to credit limits for individuals and groups of issuers. The Fund's outstanding risks are followed up regularly.

All counterparties are evaluated and approved in a set process in which e.g. their official rating is considered. We also require counterparties to enter into agreements that regulate how receivables and liabilities are handled if a party can no longer fulfil its obligations. We require security for any outstanding liabilities.

Settlement risk is minimised by ensuring that purchases and sales of equities and bonds are automatically matched against a counterparty. The focus is on any deviations that can be rectified quickly. Payment and transfer for the transaction take place simultaneously.

The Fund's liquidity risk is restricted by means of the AP Funds Act because no less than 20 per cent of the Fund's assets shall be invested in receivables with low credit and liquidity risk.

The Fund's hedging policy has been drawn up by the Board and is part of the Fund's portfolio optimisation process. The policy aims to reduce risk in the portfolio and a systematic hedging programme is actively pursued.

The foreign exchange exposure of the total portfolio has had a positive effect on results in 2019 as a result of the net weakening of the krona against other currencies. The hedging programme has had a negative impact on results.

Risk management plan

The Board of Directors annually adopts a risk management plan that sets out guidelines and limitations for the risk mandate delegated by the Board to the CEO. The plan sets out limits for financial risk-taking and stipulates well-defined decision-making structures for operating activities. More detailed instructions for managing and following up risks can be found in the instructions from the CEO. Frameworks for risk-taking are specified for individual management mandates in an investment instruction, with ac-

companying risk mandates based on a number of assumptions regarding long-term market development and risk levels for different asset classes. Read more about the Fund's risk function on pages 72–73.

Creation of new risk appetite framework

In November 2020, the Fund's executive management team and the Board began work on developing a new risk appetite framework for the Board, which will be an important compass for risk management in various dimen-

sions. Risk appetite is the willingness to take some risks and not others, i.e. the level of risk an organisation is prepared to accept to achieve its goals. The framework will encompass the Fund's key risks and levels of risk appetite in different areas, as well as risk indicators and limits for risk to reputation and political risk. The framework will be an important tool for the Board and management in making decisions about how much risk is acceptable to create the value the Fund wants to achieve.

Operational risks

Risk

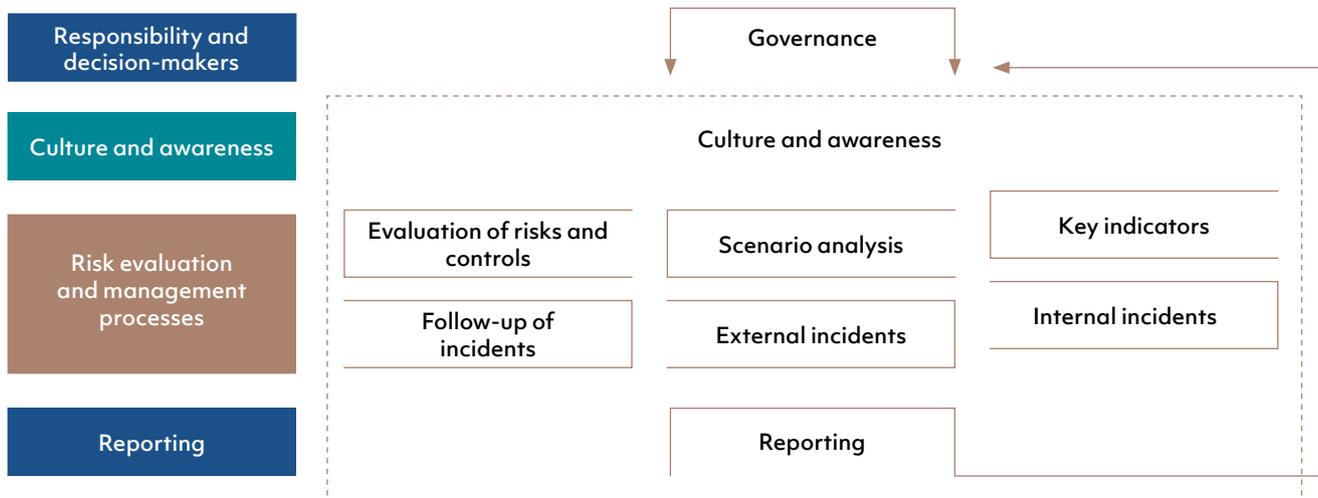
Operational risks

Operational risks can be administrative errors, failing processes, system errors or the occurrence of an external event that causes disruption. Operational risks also include legal risks, reputational risks, strategic risks, sustainability risks and information management risks.

Management

Operational risks are minimised by means of a good control environment and culture with, for example, incident follow-up, preparation of relevant policy documents, staff training and investment in IT systems. In addition to ongoing work on operational risks and controls, there is an annual self-evaluation of the efficiency of how operational risks are managed and existing controls are conducted, the aim being to take a cohesive approach to the operational risks. The goal is to identify, measure and evaluate the Fund's risks and controls in their entirety.

Framework for operational risks



Första AP-fonden's Fund Governance Report 2020

The Board of Directors of AP1 has chosen to publish a Fund Governance Report to provide information on the work of the Board and Fund on governance and risk management. AP1's principles and core values – professionalism, engagement, a long-term approach and sustainability – are at the heart of its corporate culture.

THE FUND GOVERNANCE REPORT, including the Board of Directors' report on risk management, has not been reviewed by the auditors. Första AP-fonden (AP1) is a Government authority (for details see the Fund's website, www.ap1.se) commissioned to manage assets in the Swedish income pension system. The AP Funds are more independent than most Swedish authorities because their operations are only regulated in the Swedish National Pension Funds Act⁽¹⁾ (the AP Funds Act) and not by regulations or appropriation directions. As a Government authority, AP1 is also affected by other laws⁽²⁾. Each year, the operations of all AP Funds are evaluated by order of the Swedish Government. The results

of the evaluation are presented in a communication to the Swedish Parliament, presented in May of the year following the review period. Government communication 2019/20:130 describes the evaluation through 2018. The communications are available at www.ap1.se. AP1 voluntarily complies with the Swedish Code of Corporate Governance where it is possible. Publication of this Fund Governance Report is part of this compliance. However, not all rules in the Code are applicable to all parts, since AP1 is a Government authority. In the table, the rules which the Fund does not follow are set out, and the reasons for this. All other rules of the Code are followed.

Rule	Divergence	Reason
Section 1	<i>Första AP-fonden does not hold an AGM</i>	The Board members of the Fund are appointed by the Swedish Government. Therefore, the Fund has neither an AGM nor a nomination committee.
Section 2	<i>Första AP-fonden does not have a nomination committee</i>	The Board members of the Fund are appointed by the Swedish Government. Therefore, the Fund has neither an AGM nor a nomination committee.
7.6	<i>The Fund's six-month interim report is not reviewed by the auditors</i>	AP Funds report full-year and six-month results. The six-month report, which does not affect the pension system, is not reviewed for cost reasons.
10.2 pi	<i>The Fund does not report the composition of the nomination committee</i>	The Fund's Board members are appointed by the Government and there is thus no nomination committee.

(1) The National Pension Insurance Funds Act (2000:192) (the AP Funds Act).

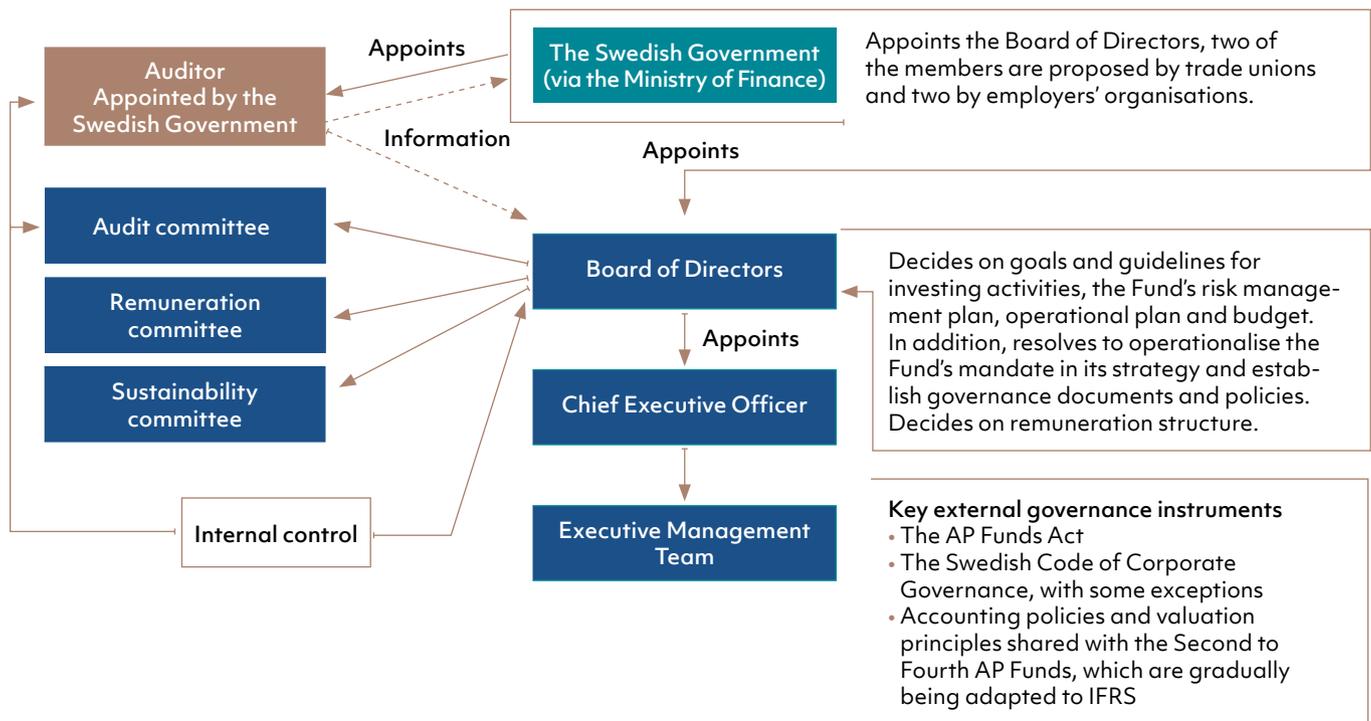
(2) For example, the Public Procurement Act (2007:1091), the Public Access to Information and Secrecy Act (2009:400), the Financial Instruments Trading (Market Abuse Penalties) Act (2005:377) and Anti-Bribery legislation in Chapter 10 of the Criminal Code. The Retirement Pension (Income-Based) Act (1998:674) also affects the Fund's operations.

Board of Directors

The Board of Directors of Första AP-fonden bears full responsibility for the operations of the Fund and is responsible for the Fund's organisation and management of Fund assets. The work of the Board is regulated in the National Pension Insurance Funds (AP Funds) Act. AP1's Board of Directors consists of nine members, all of whom are appointed by the Swedish Government. Two of the members are appointed by the proposal of organisations representing employee interests, and two are appointed by the proposal of organisations representing employer interests. The Government also appoints the Chairman and Deputy Chairman from among the members not proposed by labour market parties. The Fund's CEO is not a member of the Board. The Government also appoints the Fund's external auditors. The members' term of

office is one year, i.e. it extends until the Fund's income statement and balance sheet for 2020 have been adopted. Fees and other remuneration for members of the Board are determined by the Government. Remuneration for the full year amounts to SEK 200,000 for the Chairman, SEK 150,000 for the Deputy Chairman and SEK 100,000 each for the other Board members. In addition, there is scope to pay total fees of SEK 100,000 for work on the Board's committees. The Board has resolved to pay fees of SEK 13,200 per year to each member of the audit committee, SEK 6,600 per year to each member of the remuneration committee and SEK 13,200 per year to each member of the sustainability committee. For more information about fees for Board members see Note 5. A more detailed presentation of the members of the Board of Directors is provided on pages 74–75.

Overview of governance



Work of the Board of Directors

Each year, in compliance with the requirements imposed by the National Pension Insurance Funds (AP Funds) Act, the Board of Directors establishes targets and guidelines for the investing activities, the Fund's risk management plan, ownership policy, operational plan and budget. In addition, the Board resolves to operationalise the Fund's mandate in its strategy and a number of governance documents, the most important being its core values and ethical policy, policy for gifts, hospitality and other benefits, remuneration policy for senior executives and rules governing employees' trade in financial instruments. The Board also appoints a CEO to whom it delegates responsibility for the Fund's day-to-day activities. The Board has resolved on rules of procedure for its own work. In 2020 the Board met on eight occasions. During the year, the Board addressed the outcome of management, expenses, ownership matters, the operational plan and budget, etc. In addition to the ordinary meetings, the Board of Directors also discussed the Fund's mandate, strategy and targets ahead of forthcoming decisions at a seminar. Average attendance at Board meetings was 97 per cent (see table on next page). Reporting of day-to-day asset management and risk reporting have been standing items on the agenda. At Board meetings, in addition to Board members, the CEO of the Fund attends, as well as the secretary to the Board and various employees of the Fund for most points on the agenda. The secretary to the Board is the Fund's General Counsel. Other staff of the Fund also participate as experts or reporting persons. External

speakers are also invited to Board meetings when needed. The Fund's external auditors report to the Board at least once a year. On these occasions, there is time for discussions between the Board and auditors without the presence of employees of the Fund. Each year, the Board conducts an evaluation of its own work. The evaluation is then used to improve the work of the Board and its committees, as well as the preparatory work of management ahead of Board meetings. The Chairman of the Board reports the main results to the Government. From among its own members the Board has appointed three committees: an audit committee, a sustainability committee and a remuneration committee. All of the committees are preparatory organs and the Board retains the right to make decisions in all matters addressed in the committees.

The committees' work

The committees assist the Board in matters related to internal control, operational risks, financial reporting and auditing. In 2020 Anna Hesselman was chair, and Åsa-Pia Järliden Bergström and Erik Sjöström (from May) were members of the audit committee. The committee convened four times. Attendance at meetings of the audit committee was 83 per cent. The Fund's auditors take part in the meetings of the audit committee on two occasions. The Fund's General Counsel, the Head of Middle Office & Risk and the Head of Business Support are co-opted into the audit committee meetings.

Attendance at board meetings and meetings with the audit committee, remuneration committee and sustainability committee

Name	Nomination/appoint- ment proposed by	Board meetings (attendance) 8 meetings	Remuneration com- mittee (attendance) 2 meetings	Audit committee (attendance) 4 meetings	Sustainability com- mittee (attendance) 7 meetings
Urban Hansson Brusewitz, Chairman		8/8	Chair 2/2		
Charlotte Nordström	Nominated by SALAR	8/8	Board member 2/2		
Peter Hansson		8/8	Board member 2/2		
Annika Sundén, Deputy Chair		4/4 ¹⁾		Chair 0/2	
Anna Hesselman Deputy Chair		4/4 4/4 ²⁾		Board member 2/2 Chair 2/2	
Åsa-Pia Järliden Bergström	Nominated by LO	8/8		Board member 4/4	
Erik Sjöström	Nominated by Confederation of Swedish Enterprise	4/4 ³⁾		Board member 2/2	
Kent Eriksson		7/8			Board member 7/7
Eva Redhe		7/8			Board member 7/7
Per Klingbjer	Nominated by SACO	8/8			Board member 7/7
		70/72	6/6	10/12	21/21

1) Left the Board and audit committee in May 2020.

2) Appointed Deputy Chairman and chair of the audit committee in May.

3) Appointed a Board member in May 2020.

The remuneration committee assists the Board in matters related to remuneration. In 2020, the committee consisted of Board Chairman Urban Hansson Brusewitz, Peter Hansson and Charlotte Nordström. The committee convened twice during the year. Attendance at meetings of the remuneration committee was 100 per cent. The CEO of the Fund is co-opted into the remuneration committee's meetings, apart from when their remuneration is discussed. The Head of Human Resources is co-opted into remuneration committee meetings.

The sustainability committee assists the Board in matters related to sustainability. In 2020 the committee consisted of Board members Per Klingbjer (chair of the committee), Eva Redhe and Kent Eriksson. The committee convened seven times. Attendance at meetings of the sustainability committee was 100 per cent.

Management of the Fund

The Board of AP1 has delegated responsibility for operating activities to the Fund's CEO. The Board decides on the long-term risk preference of the Fund, which is manifested in overarching asset allocation. In order to implement the Fund's investment philosophy, the CEO is given a mandate to diverge from the overarching asset allocation within specified bounds. In support of the CEO in decisions pertaining to operating activities, the CEO has decided to appoint an executive management team that includes the Chief Investment Officer and the General Counsel, and the Heads of Middle Office & Risk, Business Support, IT, Communication and HR.

Remuneration

AP1's Board of Directors annually adopts a policy for remuneration for senior executives (published on www.ap1.se). The Fund's policy is based on the guidelines resolved by the Government on 20 April 2009. The policy sets out that the total amount of remuneration for each person should be fair and reasonable, balanced and characterised by moderation. Furthermore, remuneration should be market-based and competitive with respect to the labour market in which the executive works, but without being higher than the norm for comparable positions. No variable remuneration is available to the Fund's employees. AP1, together with the Second, Third, Fourth, Sixth and Seventh AP Funds, also has a joint policy for remuneration, employee benefits, hospitality and business travel. It is published on www.ap1.se. Remuneration to the CEO is determined by the Board of Directors and consists of fixed salary and payment of defined contribution pension premiums equal to 30 per cent of basic salary. For the portion of remuneration granting rights under the national pension scheme, the pension premium is reduced to 11.5 per cent. Remuneration for senior executives of AP1 is determined by the CEO according to a well-defined process that involves the Board of Directors and its remuneration committee. AP1 complies with all points (9.1–9.8) relating to remuneration to senior executives in the Swedish Code of Corporate Governance. In each of the past four years, the Fund's average salary increases have been below the corresponding increases for the comparable market. See Note 5 for further information regarding remuneration for the executive management team paid in 2020. Every year, the

Fund commissions a comparison of remuneration levels with relevant parts of the labour market as a basis for monitoring remuneration for the Fund's employees, and this also occurred in 2020. In the Board's opinion, salary levels are market-based, competitive, reasonable and appropriate without being higher than the norm with regard to the CEO, senior executives and other employees. The Board has found that the Fund is in compliance with both the remuneration policy established by the Board and the Swedish Government's guidelines for terms of employment of senior executives in the AP Funds.

The auditors perform a review to ensure compliance with the Fund's remuneration policy for senior executives, the Swedish Government's guidelines for terms of employment of senior executives in the AP Funds and the joint policy with other AP Funds. No divergences from the above were noted.

Conflicts of interest

Första AP-fonden uses a three-step process to handle any conflicts of interest. The first stage is to identify potential conflicts of interest in advance. In the second stage, transpired conflicts of interest are addressed by means of the CEO deciding on the Fund's action in the individual case. For conflicts of interest of particular importance, the Chairman of the Board is consulted. Conflicts of interest of particular importance are reported to the Board. No conflicts of interest of particular importance arose in 2020.

Internal control

The Board of Directors is responsible for the governance and risk management of the Fund. In the Fund's risk management plan, the Board has adopted guidelines and frameworks for the Fund's overarching allocation of responsibilities, risks, risk limits and procedures for monitoring and control of compliance with rules and guidelines. The Board's report on risk management is provided on page 72.

Independent review

Two internal audit services were carried out in 2020: one advisory service on information security, and one review of internal control functions following reorganisation.

External audit

AP1's auditors are appointed by the Swedish Government. A decision by the Swedish Government, via the Ministry of Finance, dated 28 May 2020 renewed the appointment of Peter Nilsson and Helena Kaiser de Carolis as designated auditors from PwC. The term runs up until the Fund's income statement and balance sheet for 2020 have been adopted. The auditors have also been appointed as auditors of the Second, Third, Fourth and Seventh AP Funds. The auditors report directly to the Board in the form of a written audit report and a verbal presentation. The auditors participate in at least one Board meeting per year. In addition, regular meetings with the audit committee are held. The auditors present an auditors' report of their findings. The auditors also submit a yearly verbal report to the Swedish Ministry of Finance. The auditors' duties include examining the Fund's operating activities, the administration of the Fund, the year-end accounts and the annual report, and expressing an opinion on the Fund's accounting documents and administration based on their audit. Their duties also include assessment of AP1's application of the accounting and valuation policies established by the AP Funds and whether the accounting records prepared provide a true and fair presentation of the operations. In addition to a regular audit, the AP Funds' auditors must append a written, signed statement to the auditors' report to express their opinion on whether or not the guidelines for remuneration to senior executives as established for the financial year have been complied with.

The Board of Directors' Report on Risk Management

SINCE 2015, AP1 works according to a new investment process, which is an enhancement of the investment process implemented in 2014. This report describes risk management in 2020. The Swedish Government commissions external auditors to review the Fund's financial statements and risk control. An internal audit is also conducted annually, as commissioned by the Board.

According to the National Pension Insurance Funds Act (2000:192), the Board of Directors of AP1 is responsible for the Fund's organisation and management of the Fund's assets. Part of this responsibility is to ensure the high quality of the Fund's internal control. From among its members, the Board appoints an audit committee to prepare matters pertaining to internal control, for example. The Board submits this report on risk management annually. However, this report is not part of the formal annual report and is therefore not examined by the Fund's auditors.

As a participant in financial markets, the Fund distinguishes between three risk categories that are addressed in different ways.

- Financial risks – market risks and issuer risks – enable the Fund, when employed correctly, to increase its return on invested capital. Financial risks shall thus be optimised within the risk mandate delegated to the CEO by the Board, and the risk mandate further delegated by the CEO within the management organisation.
- Counterparty and delivery risks shall be minimised. Counterparties are evaluated and approved in a set process in which account is taken of, for example, their official rating.
- Operational risks shall be minimised by means of e.g. incident follow-up, preparing relevant policy documents, staff training and investment in IT systems.

Control environment – Fund governance

The Board of Directors annually adopts a risk management plan that sets out guidelines and limitations for the risk mandate delegated by the Board to the CEO. The document serves as a basis for the internal control and monitoring of the Fund's investing activities. The plan sets out limits for financial risk-taking and stipulates well-defined decision-making structures for operating activities. The approach leads to sound internal risk control.

Although AP1 does not formally come under the regulations of Finansinspektionen (the Swedish financial supervisory authority), the Fund's risk management rests on Finansinspektionen's Regulations and General Guidelines

regarding governance, risk management and control at credit institutions (FFFS 2014:1) in terms of the three lines of defence, (i) responsibility for risk management and control in the business operations, (ii) internal control and regulatory compliance and (iii) independent review. For the third line of defence, independent review through internal audit, the Board of Directors has resolved to conduct independent reviews with the support of an external consultant.

Managing financial risks is fundamental to the ability of the Fund to deliver on its mandate in the pension system. Risk management in the Fund is thus proactive, with financial risk forecast for each asset individually and for the portfolio as a whole. For this reason, there is a well-established risk culture at the Fund. Important elements of this culture are transparent reporting of the Fund's investments and a principle of duality for executing business transactions. This means that everyone in the organisation can monitor investing activities via an enterprise-wide system and that each business transaction requires the approval of at least two people – one from the Fund's Back Office and one from the relevant investment unit. Middle Office focuses on financial risks and counterparty and delivery risks.

The second line of defence comprises the internal risk control function and compliance function. The Compliance Officer works primarily with verifying compliance with external regulations.

Risk assessment

To ensure effective financial reporting and identification of operational risks, a yearly review of the Fund's processes and documentation thereof is conducted by order of the Board. The results of this review are reported to the Board's audit committee and the Board. A key component of this review is the account-closing process, which serves as a basis for the external financial reporting. The account-closing process encompasses valuation, reconciliation and controls of securities in connection with the closing of accounts. Aside from a general review of the processes, the Chief Risk Officer, after consultation with the CEO, establishes on a yearly basis the areas to be prioritised and subjected to special review. The units within the organisation 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 a prioritisation of measures. The Fund's Chief Risk Officer oversees the analysis process and ensures that the prioritised measures are implemented.

Three lines of defence for risk management and internal control



Control structure and activities

The financial information is analysed and verified by the Fund's Back Office and Middle Office. The systems in Back Office and Middle Office also produce source materials for various risk analyses that are used as support for control activities.

AP1's accounting and valuation policies are being gradually adapted to International Financial Reporting Standards, IFRS. Complete adaptation to IFRS would have no material impact on the reported net investment income and net assets. Compared to the currently applicable IFRSs, the only major difference is that consolidated financial statements and cash flow statements are not prepared. To read more about this, see the Fund's accounting and valuation policies.

The portfolio is managed according to forecast financial risk control within the given mandates. Forecast risk is analysed retrospectively in relation to the actual risk outcome. In this way, the model for portfolio management can be developed.

Communication and reporting

All guidelines and instructions with relevance for internal control are communicated clearly and are available to all employees on the Fund's intranet. This transparency also applies to the daily internal performance reports, which are also available on the Fund's intranet.

The Board is regularly informed about the Fund's financial position and performance. Each month, the Board is provided with an income, return and risk report. An income statement and balance sheet report is presented to the Board on a quarterly basis. The Fund's financial position and risk-taking are also reported at each ordinary Board meeting. Risk reporting is a standing item on the agenda of all of the Fund's ordinary Board meetings. These procedures are deemed to secure the Fund's external financial reporting. External reports of the Fund's financial position are published in connection with the annual and semi-annual accounts. Middle Office reports to the audit committee in connection with its meetings. The auditors report continuously to the audit committee and to the Board in connection with the annual closing of accounts.

Board of Directors



**URBAN HANSSON
BRUSEWITZ**

Born: 1958
Chairman, chair of the remuneration committee
 Elected to the Board in 2016. PhD in Economics, Director-General of the National Institute of Economic Research.
Other assignments: Member of the Swedish National Financial Management Authority's transparency council.



ANNA HESSELMAN

Born: 1954
Deputy Chairman
Chair of the audit committee
 Elected to the Board in 2015. Licentiate Degree in Economics. Consulting business in accounting and finance.
Other assignments:-



KENT ERIKSSON

Born: 1964
Member of the sustainability committee
 Elected to the Board in 2015. Professor at the Royal Institute of Technology.
Other assignments:-



PETER HANSSON

Born: 1957
Member of the remuneration committee
 Elected to the Board in 2019.
Other assignments: Chairman of the Swedish Childhood Cancer Fund's finance committee and board member of Nordkinn Asset Management AB.



**ÅSA-PIA JÄRLIDEN
BERGSTRÖM**

Born: 1969
 Member of the audit committee
 Elected to the Board in 2015. Appointed on the proposal of employee organisation (LO). M. Sc. in Economics, LO economist.
Other assignments: Chairman of Bantorget Finans AB.



PER KLINGBJER

Born: 1964
Chair of the sustainability committee
 Elected to the Board in 2019. Appointed on the proposal of employee organisation (SACO). PhD in Physical Geography, Executive Director of the Swedish Association of Professional Scientists.
Other assignments: Chairman of Svenskt Friluftsliv, board member of Akademikertjänst I.A.S AB, Akademikerförsäkring AB, Förvaltningsaktiebolaget Akademikerhus and member of the Royal Swedish Academy of Agriculture and Forestry.



CHARLOTTE NORDSTRÖM

Born: 1963

Member of the remuneration committee

Elected to the Board in 2019.

Appointed on the proposal of employer organisation SALAR (Swedish Association of Local Authorities and Regions).

Chairman of the Board of Regionhälsan/Deputy Member of the Regional Executive Board in Region Västra Götaland.

Other assignments: Member of the Swedish Police transparency council, member of Turistrådet Västsverige AB.



EVA REDHE

Born: 1962

Member of the sustainability committee

Elected to the Board in 2013.

MBA.

Other assignments: Chairman of the board of Ftrack AB. Board member of Axel Christiernsson International AB and Nordkinn Asset Management AB.



ERIK SJÖSTRÖM

Born: 1970

Member of the audit committee

Elected to the Board in 2020.

Appointed on the proposal of the Confederation of Swedish Enterprise.

Other assignments: –

Executive Management Team



**KRISTIN MAGNUSSON
BERNARD**

Born: 1979
CEO
 In current position since 2020.
Employed: 2020
Education: Doctorate in Economics from the Stockholm School of Economics.
Previous experience: Nordea, European Central Bank, Frankfurt and the International Monetary Fund, Washington D.C.



MIKAEL ANGBERG

Born: 1973
Chief Investment Officer
Employed: 2013.
 In current position since: 2013.
Education: Master of Engineering
Previous experience: PIMCO, BNP Paribas, Goldman Sachs, AXA Investment Managers and CERN.



SARA CHRISTENSEN

Born: 1970
Head of Communications
Employed: 2019.
 In current position since: 2019.
Education: Business Administration.
Previous experience: Swedbank, Kaupthing, ABB, GE Capital.



MATS ENEBRINK

Born: 1976
Head of Operations
Employed: 2008.
 In current position since 2020.
Education: Master of Engineering, CFA.
Previous experience: AFA Försäkring, VPD Financial Software Consulting.



TERESA ISELE

Born: 1982
Head of Business Support & Development
Employed: 2015.
 General Counsel since: 2016.
 In current position since: 2020.
Education: Swedish Bachelor of Laws & Master of Laws at Stockholm University, German Bachelor of Laws at Humboldt-Universität, Berlin, Diploma in English Law at King's College London.
Previous experience: EQT, Vinge.

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