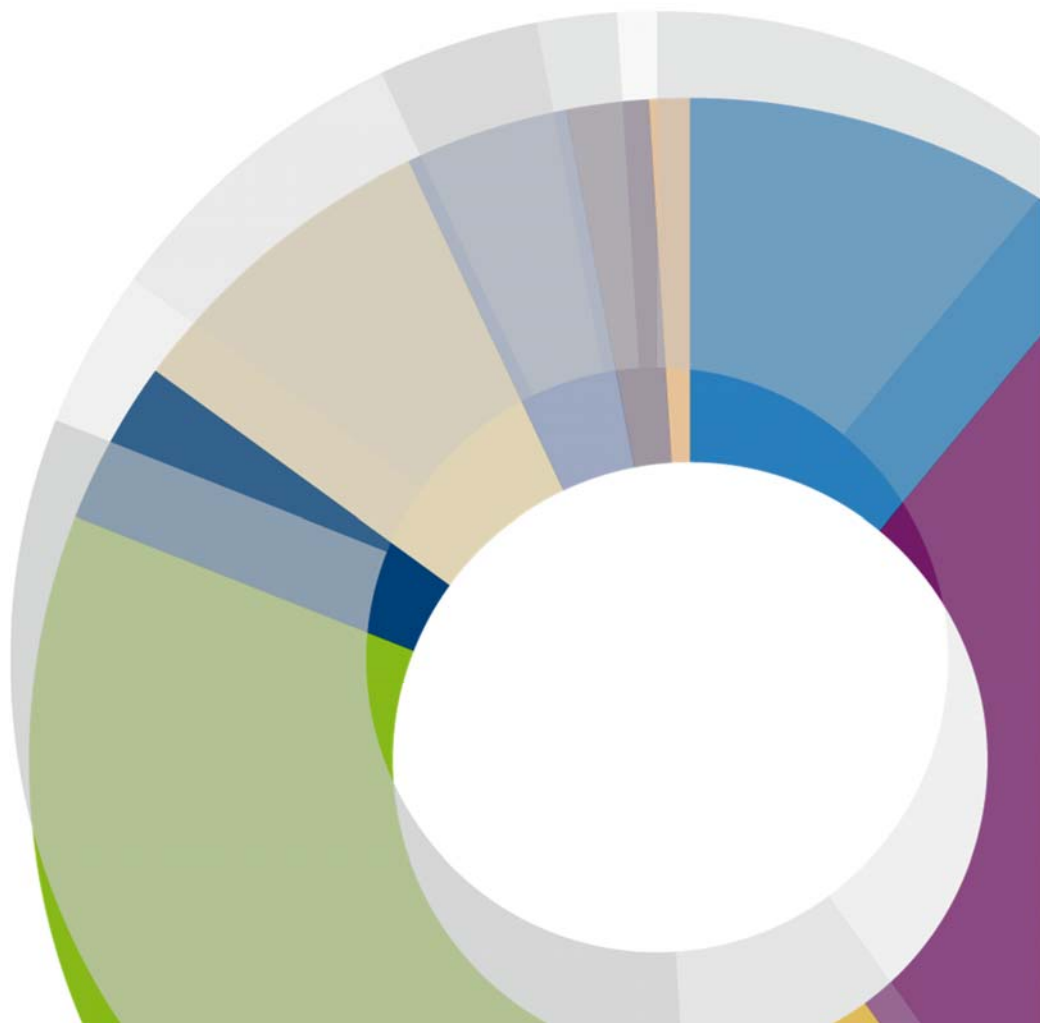


# Half-year report January 1 – June 30 2017



## Stable return despite turbulent market

The Second Fund\* posted a total return of 4.8 percent, including costs, for the first half of 2017. Relative to benchmark index, return was 0.1 percent, excluding alternative investments and costs. The net result was SEK 15.5 billion, while the Fund's assets under management totalled SEK 336.3 billion as of June 30 2017.

- The Second AP Fund's assets under management totalled SEK 336.3 (308.0) billion on June 30 2017, against which net outflows to the national pension system were charged in an amount of SEK -3.7 (-3.2) billion.
- The Fund posted a first-half net result of SEK 15.5 (10.6) billion.
- The Fund's return on the total portfolio was 4.9 (3.7) percent, excluding commission and operating expenses. Including these costs, the portfolio generated a return of 4.8 (3.6) percent.
- The relative return on the portfolio of quoted assets, excluding alternative investments and costs, amounted to 0.1 (-0.7) percent.
- Operating expenses in terms of asset management costs continued to be low, amounting to 0.06 (0.07) percent for the period.
- Over the past ten years, the Fund has generated a return on invested assets of 70.4 percent, excluding costs, corresponding to an average annual return of 5.5 percent. Less inflation, this is equivalent to an annual real return of 4.4 percent.
- Since its inception in 2001, the Fund has generated an overall return of SEK 221.3 billion, corresponding to an average annual return of 5.9 percent, including costs.
- The Fund's level of currency exposure was 32 (33) percent.

### Key ratios

	Jan-June 2017	Jan-June 2016	Jan-Dec 2016
Fund capital carried forward, SEK billion	336.3	308.0	324.5
Net result for the period, SEK billion	15.5	10.6	30.5
Net payments to the national pension system, SEK billion	-3.7	-3.2	-6.6
Fund capital brought forward, SEK billion	324.5	300.6	300.6
Asset management costs, operating expenses, %	0.06	0.07	0.07
Asset management costs, commission expenses, %	0.08	0.09	0.08
<i>Total asset management costs, %</i>	<i>0.15</i>	<i>0.16</i>	<i>0.15</i>
Return on total portfolio after costs, %	4.8	3.6	10.3
Real return on total portfolio after costs, %	4.0	2.8	8.5
Annualized return after commission and operating expenses, 5.0 years, %	10.4		
Annualized return after commission and operating expenses, 10.0 years, %	5.3		
Real annualized return after commission and operating expenses, 10.0 years, %	4.2		

\*The Second AP Fund is officially translated as the Second Swedish National Pension Fund. In body text, for convenience, this is shortened to the Second AP Fund/the Fund and, where space requires, AP2.

Unless otherwise stated, the portfolio assets referred to in this report are "allocated exposures". In addition to booked fair values, these also refer to allocated (but not yet invested) liquidity for the specific class of asset, and the liquid funds held as collateral for positions already taken in derivative instruments. Classes of asset, derivative instruments and liquid funds are reported individually in the balance sheet at their fair values. All monetary amounts are expressed in Swedish kronor and abbreviated as SEK k (thousand), SEK million or SEK m (million) and SEK billion or SEK bn (thousand million). Figures in parentheses refer to the same period of time preceding year.

## Half-year result

The first-half result for 2017 featured a solid return on stock yields, combined with rising interest levels and a stronger krona during the latter weeks of June. The negative impact of the stronger krona was to some extent mitigated by the Fund's hedging policy and tactical positions. Chinese domestic-market equities proved the best-performing asset class in the first half and the Fund's portfolio generated a return of 15.4 percent, mainly attributable to excellent active returns.

Total returns on the Fund's portfolios of Swedish and foreign equities for the first half were 9.7 and 4.2 percent respectively. Emerging-market equities saw an 8.9 percent increase in market worth. Swedish fixed-income securities generated a return of 0.3 percent, foreign government securities -2.9 percent, foreign credits -2.4 percent, green bonds -1.7 percent and emerging-market bonds 2.7 percent. The Fund's alternative investments, comprising domestic Chinese equities, unquoted real estate, private equity funds, alternative risk premiums and alternative credits, generated a return of 4.6 percent.

The relative result was positive, at nine basis points.

### Changes in the portfolio

During the report period, the Fund conducted a number of changes in the strategic portfolio. Exposure to Swedish small-cap stocks rose from 1 to 2 percent, exposure to large-cap stocks declining by 1 percent and starting to be managed entirely in line with the Fund's stratified equally-weighted index. Exposure to Chinese domestic-market equities was increased from 1 to 2 percent, at the expense of developed stock markets. Concerning the management of emerging-market bonds in local currency, portfolio exposure was broadened to enable the inclusion even of countries that lack an 'investment grade rating'.

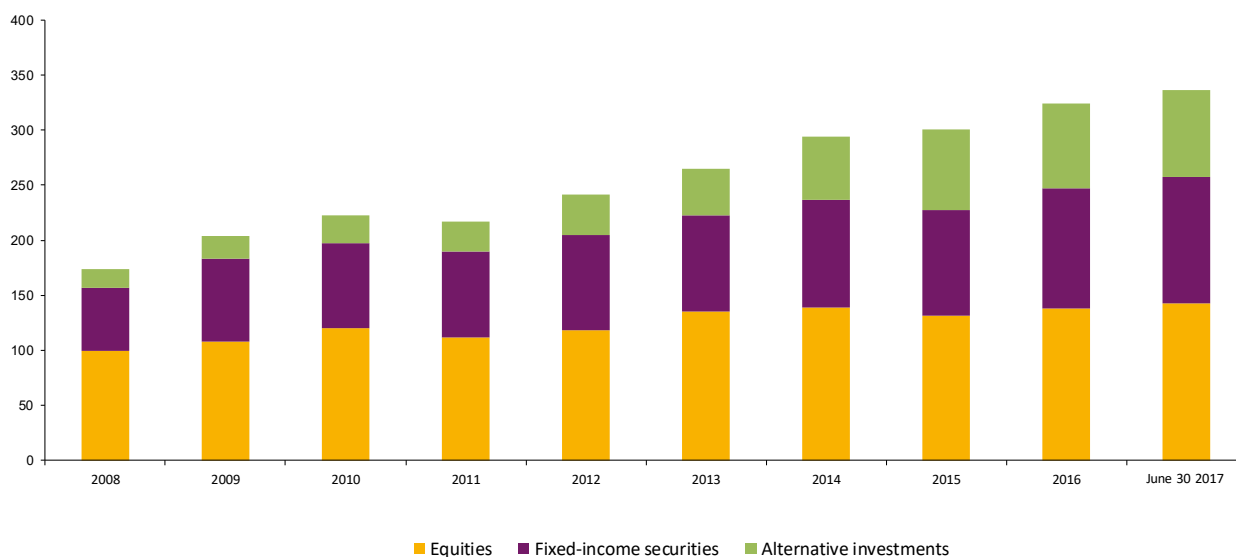
During the report period, the Fund employed environmental, social and governance (ESG) data in its active management of emerging-market equities, in line with a similar model used in managing equities on developed markets.

### Composition of strategic portfolio, share of portfolio and return, June 30 2017

Asset class	Strategic portfolio, %	Share of portfolio, %	Market worth SEK bn	Absolute return, %	Relative return, %	Active risk ex post*, %
Equities, Swedish	9.5	9.9	33.4	9.7	-0.9	1.7
Equities, developed markets	22.0	21.9	73.7	4.2	0.7	0.5
Equities, emerging markets	11.0	10.6	35.8	8.9	-0.1	0.6
Fixed-income, Swedish securities	13.0	13.2	44.4	0.3	0.2	0.3
Fixed-income, foreign green bonds	1.0	1.0	3.3	-1.7	-0.3	0.6
Fixed-income, foreign government bonds	4.0	3.9	13.0	-2.9	-0.1	0.7
Fixed-income, foreign credits	10.5	10.2	34.3	-2.4	-0.1	0.2
Fixed-income, emerging markets	6.0	5.8	19.4	2.7	0.3	0.3
<b>Total listed assets, excluding alternative investments, commission fees and operating expenses</b>				<b>5.0</b>	<b>0.1</b>	<b>0.4</b>
Alternative investments	23.0	23.5	79	4.6		
<b>Total Fund capital, excluding commission fees and operating expenses</b>	<b>100</b>	<b>100</b>	<b>336.3</b>	<b>4.9</b>		

\* Historical outcome, 12 months rolling.

### Fund capital growth, 2008 – June 30 2017, SEK billion



## Income statement and balance sheet

SEK million	Jan-June 2017	Jan-June 2016	Jan-Dec 2016
<b>Operating income</b>			
Net interest income	573	1 005	1 818
Dividends received	4 239	4 505	6 432
Net result, listed equities & participations	12 490	-2 370	8 139
Net result, non-listed equities & participations	1 580	955	3 923
Net result, fixed-income assets	976	3 558	2 179
Net result, derivative instruments	202	-405	-162
Net result, exchange gain/loss	-4 362	3 591	8 687
Commission expenses, net	-138	-128	-264
<b>Total operating income</b>	<b>15 560</b>	<b>10 711</b>	<b>30 752</b>
<b>Operating expenses</b>			
Personnel expenses	-64	-65	-131
Other administration expenses	-40	-44	-86
<b>Total operating expenses</b>	<b>-104</b>	<b>-109</b>	<b>-217</b>
<b>NET RESULT FOR THE PERIOD</b>	<b>15 456</b>	<b>10 602</b>	<b>30 535</b>

### Balance sheet

SEK million	June 30 2017	June 30 2016	Dec 31 2016
<b>Assets</b>			
Equities and participations			
Listed	150 328	142 710	147 559
Non-listed	53 152	45 766	54 239
Bonds and other fixed-income assets	124 986	117 433	119 424
Derivative instruments	6 418	2 140	2 745
Cash and bank balances	2 943	4 227	2 328
Other assets	981	2 271	62
Deferred charges and accrued income	1 569	1 664	1 802
<b>TOTAL ASSETS</b>	<b>340 377</b>	<b>316 211</b>	<b>328 159</b>
<b>Fund capital and liabilities</b>			
<b>Liabilities</b>			
Derivative instruments	1 589	5 496	3 178
Other liabilities	2 102	2 375	17
Deferred income and accrued expenses	395	330	442
<b>Total liabilities</b>	<b>4 086</b>	<b>8 201</b>	<b>3 637</b>
<b>Fund capital</b>			
Fund capital brought forward	324 522	300 624	300 624
Net payments to the national pension system	-3 687	-3 216	-6 637
Net result for the period	15 456	10 602	30 535
<b>Total Fund capital</b>	<b>336 291</b>	<b>308 010</b>	<b>324 522</b>
<b>TOTAL FUND CAPITAL AND LIABILITIES</b>	<b>340 377</b>	<b>316 211</b>	<b>328 159</b>

## Ten-year performance review

	30 June 2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Fund capital, flows and net result, SEK m</b>										
Fund capital	336 291	324 522	300 624	293 907	264 712	241 454	216 622	222 507	204 290	173 338
Net payments to the national pension system	-3 687	-6 637	-4 944	-5 120	-6 880	-3 788	-1 240	-4 041	-3 906	831
Contribution from liquidation fund/special management fund	0	0	0	0	0	0	0	0	0	53
Net result for the period	15 456	30 535	11 661	34 315	30 138	28 620	-4 645	22 258	34 858	-55 058
<b>Return, %</b>										
Return on total portfolio, excl. commission and operating expenses	4.9	10.5	4.1	13.3	12.8	13.5	-1.9	11.2	20.6	-24.0
Return on total portfolio incl. commission and operating expenses	4.8	10.3	4.0	13.1	12.7	13.3	-2.1	11.0	20.3	-24.1
Relative return on quoted assets, excl. alternative investments, commission and operating expenses*	0.1	-0.4	0.9	0.5	0.4	1.1	-0.3	0.8	0.7	-1.8
Annualized return after commission and operating expenses, 5.0 years	10.4	10.6	8.0	9.4	10.8	2.4	0.6	3.5	4.9	3.3
Annualized return after commission and operating expenses, 10.0 years	5.3	5.5	5.7	7.1	7.0	7.4	4.3	4.2		
<b>Risk, %</b>										
Active risk, ex post	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.6	1.0
FX exposure	32	31	30	24	23	20	16	12	10	12
<b>Share of external mandates</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>28</b>	<b>25</b>	<b>29</b>	<b>29</b>	<b>23</b>	<b>24</b>	<b>22</b>
<b>Management costs as % of assets under management</b>										
Management costs, operating expenses	0.06	0.07	0.07	0.07	0.07	0.07	0.07	0.08	0.08	0.08
Management cost incl. commission expenses	0.15	0.15	0.18	0.17	0.17	0.16	0.17	0.17	0.18	0.16
<b>No. of employees</b>	<b>67</b>	<b>66</b>	<b>64</b>	<b>63</b>	<b>59</b>	<b>60</b>	<b>58</b>	<b>54</b>	<b>53</b>	<b>55</b>

\* Relative return refers to the difference in return between a portfolio and its benchmark or reference index.

### **Accounting and valuation principles**

This half-year report has been prepared in accordance with the accounting and valuation principles developed jointly by Sweden's buffer funds. These principles are described on page 54 of the Second AP Fund's annual report for 2016.

This report has not been subject to special examination by the Fund's auditors.

### **Board of directors**

During the spring, the Swedish Government appointed Jan Roxendal new Vice Chairman of the Board of the Second AP Fund. Sven Björkman left the Board.

### **Next financial report**

The annual report and result for the financial year 2017 will be published in February 2018. The Fund's Sustainability and Corporate Governance Report will be published at the same time.

Gothenburg, August 22 2017

Eva Halvarsson  
CEO

