

Interim Report 2021



AP3 Tredje AP-fonden
LONG-TERM ASSET MANAGEMENT ACROSS GENERATIONS

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AP3 summary 1 January – 30 June 2021

Financial results and payments

- AP3 reported a **positive net result of SEK 48,133 million** (- 3,090) for the first six months of 2021.
- The total return was 11.4% (-0.8) after expenses.
- The annualised **asset management cost ratio** was 0.09% (0.09), of which operating expenses totalled 0.05% (0.06).
- Fund capital** rose to SEK 466,887 million (422,974 at 31 Dec 2020), an increase of SEK 43,913 million.
- SEK 4,220 million (4,200) **was paid from fund capital** to the Swedish Pensions Agency during the period to cover the difference between paid-in pension contributions and outgoing pensions and to meet pension system costs.
- AP3 has generated an **average annual return** of 11.2% over the last five years and 9.7% over the last 10 years.
- Return **outperformed the LSP benchmark portfolio** by 2.7 percentage points during the period.

48.1

SEK bn net result
for the period

11.4

% return
after expenses

467

SEK bn in fund
capital

Summary of AP3's interim results at 30 June 2021

	30 June 2021	30 June 2020	31 Dec 2020
Fund capital at 30 June, SEK bn	466.9	386.4	423.0
Net result for the period, SEK bn	48.1	-3.1	37.2
Net payment to the pension system, SEK bn	-4.2	-4.2	-7.9
Fund capital at 1 January, SEK bn	423.0	393.7	393.7
Return after expenses, %	11.4	-0.8	9.7
Real return after expenses, %	10.8	-0.5	9.1
Asset management cost ratio, operating expenses, percentage of assets under management*	0.05	0.06	0.06
Asset management cost ratio, commission expenses, percentage of assets under management*	0.03	0.03	0.03
Total asset management cost ratio, percentage of assets under management*	0.09	0.09	0.09
Annualised return after expenses, 5.0 years, %**	11.2	6.9	9.1
Annualised return after expenses, 10.0 years, %**	9.7	8.4	8.7
Annualised real return after expenses, 10.0 years, %**	8.7	7.2	7.7

* The interim report measures the asset management cost ratio on a full-year basis

** The interim report also shows annualised return for 10.0 and 5.0 years respectively.

Statement by the CEO

A strong first half of the year

The Third Swedish National Pension Fund (AP3) combines highly competent asset allocation with asset management expertise, a strong portfolio of alternative investments and effective risk control. The first six months of 2021 saw financial markets make further positive gains as vaccine rollouts overcame virus mutations and Covid-related restrictions. Economic activity is recovering, lifted by fiscal and monetary stimulus measures, though the data remains somewhat uncertain given the impact of Covid on last year's comparative figures.

AP3 reported a return of SEK 48.1 billion, or 11.4 percent after expenses. Our equity and alternative investment portfolios were the primary drivers of this strong performance. Fund capital rose by SEK 80 billion in the 12 months to 30 June, a period in which AP3 made net payments of around SEK 8 billion to cover the deficit in the state income pension system.

New sustainability policy adopted

In addition to managing fund capital and evaluating investment opportunities, our operational focus was on developing and clarifying the sustainability strategy. The June meeting of the board of directors adopted a new sustainability policy that will govern our continued integration of environmental, social and governance aspects in the investment strategy.

By engaging in these areas we seek to create value for the income pension system and to contribute to sustainable development within the confines of our mandate. We are committed to analysing sustainability-related risks and opportunities and to being a responsible owner that works to ensure that portfolio companies conduct their operations in a sustainable manner. Our primary focus is on areas where we see the greatest scope to make a difference. The latest report from the UN Intergovernmental Panel on Climate Change (IPCC) highlights the need for targeted sustainability initiatives that accelerate transition.

The Fund's sustainability work was reviewed by the government in its annual evaluation and by the National Audit Office in a special report on sustainability at the AP funds, which was published in June. These reviews gave an overall positive picture of our sustainability initiatives as fit for purpose within the context of our mandate. They also confirmed that we have effective processes in place and that we integrate environmental, social and governance aspects in our investments and stewardship. AP3 will



take on board the National Audit Office's recommendations regarding clearer objectives and more extensive reporting as we develop our sustainability initiatives going forward.

A committed owner

In the difficult and uncertain conditions caused by the pandemic it is important that investors like AP3 operate as active and responsible owners. AP3 engages actively with portfolio companies and has provided financial support by participating in share issues as and when required. During the period, the Fund continued to exert active ownership and voted at approximately 1,200 general meetings, 160 of which were in Sweden. The issues that we pursued included demands for balanced board composition and for companies to have credible strategies to deal with the major challenges posed by climate change. Our Corporate Stewardship Report, published in conjunction with this interim report, describes our governance work in more detail.

This testing time has yet to pass

The first half of 2021 was marked by hopes of combatting the pandemic with vaccines and a return to a more normal social life. The world is well on its way, but the uncertainty created by the virus is likely to live with us for a long time. This places great demands on flexibility in working methods and approaches: the testing time that we have been through has not yet passed. I am grateful for the energy and perseverance shown by AP3's employees in managing and developing our portfolio management on behalf of the pension system.

Stockholm August 2021

Kerstin Hessius

Income statement

SEK m			
Income	Jan-June 2021	Jan-June 2020	Jan-Dec 2020
Net interest income	843	1,270	2,149
Dividends received	4,334	2,306	4,375
Net income from listed shares and investments	31,020	-8,827	25,950
Net income from unlisted shares and investments	11,366	-157	6,702
Net income from fixed income assets	-120	3,070	3,370
Net income from derivatives	-931	230	-122
Net income from currencies	1,813	-808	-4,897
Commission expenses	-75	-62	-126
Total income	48,250	-2,980	37,401
Operating expenses			
Staff costs	-76	-69	-138
Other administrative expenses	-41	-42	-84
Total operating expenses	-118	-111	-222
Net result for the period	48,133	-3,090	37,179

Balance sheet

SEK m			
ASSETS	30-06-2021	30-06-2020	31-12-2020
Shares and investments			
Listed	235,976	182,629	202,410
Unlisted	101,278	80,360	86,677
Bonds and other fixed income assets	135,996	121,944	126,068
Derivatives	975	6,235	9,671
Cash and cash equivalents	1,185	829	1,107
Other assets	11,000	8,377	5,577
Prepaid expenses and accrued income	1,295	972	1,030
Total assets	487,706	401,344	432,541
FUND CAPITAL AND LIABILITIES			
Liabilities			
Derivatives	3,512	1,064	384
Other liabilities	17,264	13,843	9,120
Deferred income and accrued expenses	43	30	63
Total liabilities	20,819	14,938	9,567
Fund capital			
Fund capital at start of period	422,974	393,696	393,696
Net payments to the pension system	-4,220	-4,200	-7,902
Net result for the period	48,133	-3,090	37,179
Total fund capital	466,887	386,406	422,974
Total fund capital and liabilities	487,706	401,344	432,541

Five-year summary

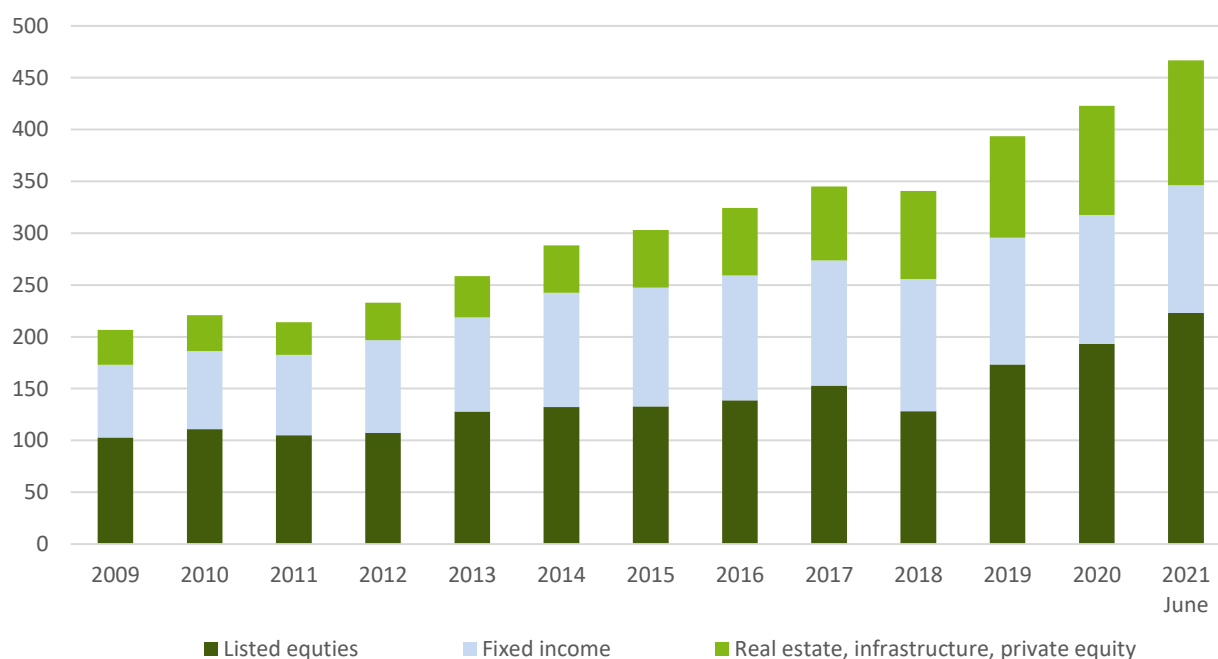
	June 2021	2020	2019	2018	2017
Income and flows					
Net result, SEK bn	48.1	37.2	59.5	2.2	28.2
Net flow from pension system, SEK bn	-4.2	-7.9	-6.5	-6.8	-7.4
Fund capital, SEK bn	466.9	423.0	393.7	340.7	345.2
Return and expenses, total portfolio					
Return before expenses, %	11.5	9.8	17.7	0.7	8.9
Operating expenses, %*	0.05	0.06	0.06	0.06	0.06
Commission expenses, %*	0.03	0.03	0.03	0.03	0.05
Return after expenses, %	11.4	9.7	17.6	0.6	8.8
Income (incl. commission expenses), SEK bn	48.3	37.4	59.8	2.4	28.4
Operating expenses, SEK bn	0.1	0.2	0.2	0.2	0.2
Income after expenses, SEK bn	48.1	37.2	59.5	2.2	28.2
Annualised return after expenses, %					
5.0 years**	11.2	9.1	8.5	7.8	10.5
10.0 years**	9.7	8.7	8.7	8.5	6.1
Return compared to LSP benchmark portfolio					
Return, percentage points	2.7	3.0	0.3	3.1	2.1
Average annual return since 2012, percentage points	2.5	2.3	2.2	2.5	2.4
Risk					
Risk (1-yr standard deviation), %***	5.0	10.8	4.2	5.4	3.5
Sharpe ratio	4.8	0.9	4.3	0.3	2.8
No. of employees at end of period	59	60	58	59	57

* The interim report measures the asset management cost ratio on a full-year basis

** The interim report shows annualised return as 10.0 and 5.0 years respectively

*** The figure for 2021 is measured using data for the six months ended 30 June

Fund capital 1 January 2009 to 30 June 2021



Market value by asset classes

	30-06-2021	2020	2019	2018	2017
Total, SEK bn	466.9	423.0	393.7	340.7	345.2
<i>of which</i>					
Swedish equities	59.4	52.1	48.8	37.3	44.5
Foreign equities	163.8	140.7	124.7	90.8	108.4
Nominal fixed income, Sweden	30.7	41.5	32.7	37.3	45.8
Nominal fixed income, foreign	65.9	56.6	60.9	66.6	54.2
Index-linked bonds, Sweden	3.5	3.8	4.9	4.9	4.8
Index-linked bonds, foreign	23.0	22.6	23.8	19.0	16.0
Private equity	23.0	17.8	15.5	13.1	10.3
Real estate and infrastructure	93.2	82.7	76.9	66.4	57.0
Other assets ¹ and other strategies	4.5	4.8	5.6	5.3	4.1
Currency exposure					
% of total portfolio	21.9	17.5	19.5	17.7	15.0
External management					
% of total portfolio	29	29	31	26	25

1) Other assets include investments in convertible debentures and insurance-related risk.

Returns and exposure by asset classes at 30 June 2021

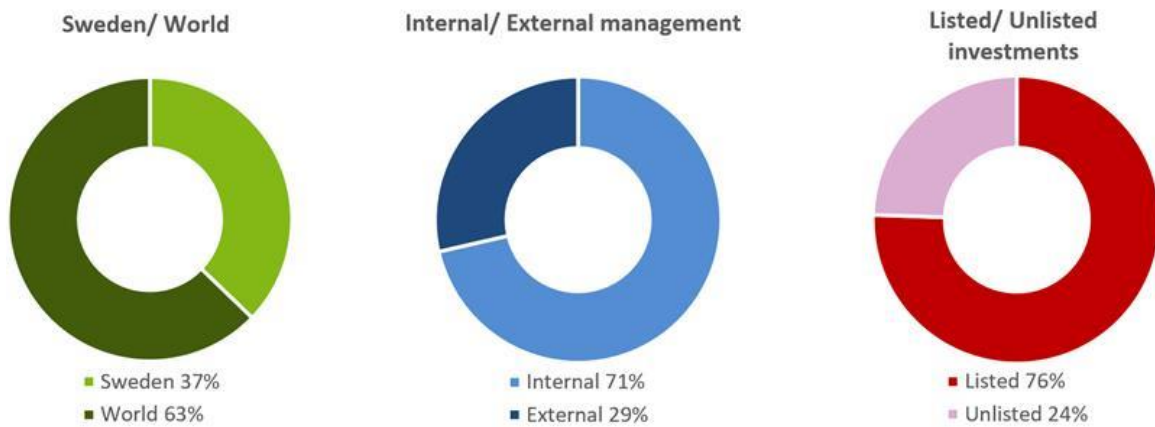
	Return %	Contribution to return, percentage points	Exposure %
Equities	15.2	7.2	45.4
<i>of which Swedish</i>	18.9	2.3	11.7
Fixed income	-0.1	-0.0	27.3
Alternative investments	14.7	3.6	25.7
Other strategies		0.1	-1.2
Currencies		0.7	21.9
Total (before expenses)	11.5	11.5	96.6

The AP3 portfolio – a closer look

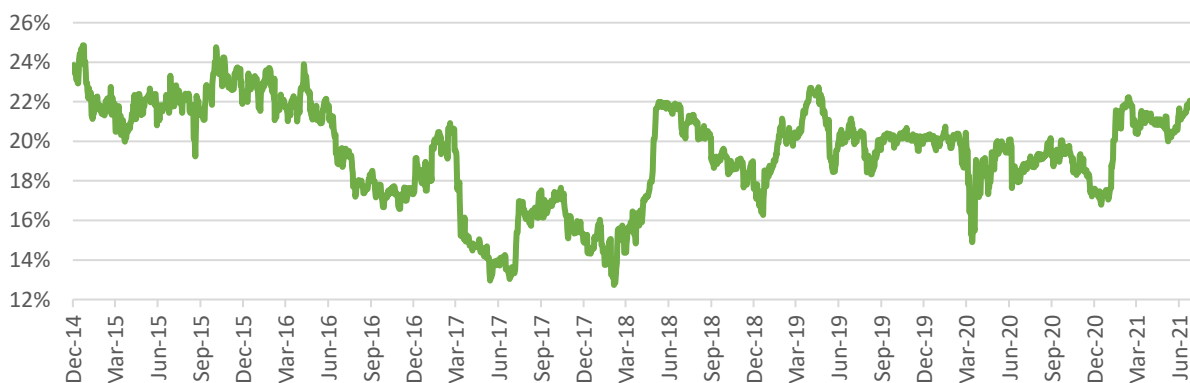
Alternative Investments 1 January 2001 to 30 June 2021



Portfolio from three perspectives, 30 June 2021



Currency exposure, December 2014 to 30 June 2021



Further information about AP3 and the Fund's investment holdings is available at www.ap3.se

AP3

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