



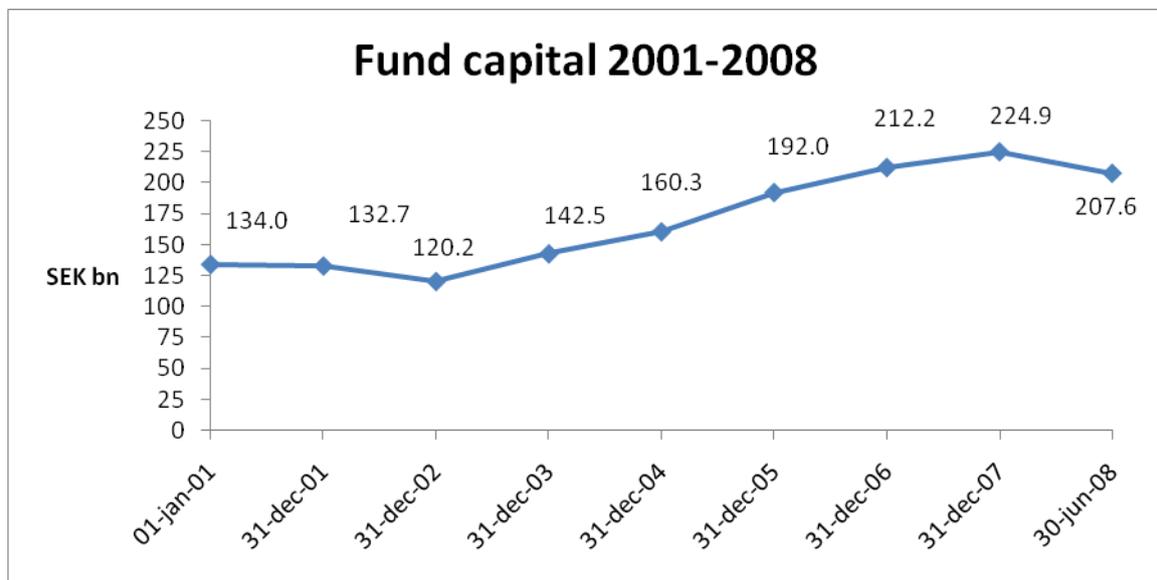
Third Swedish National
Pension Fund

Interim report 2008 1 January - 30 June



1 January – 30 June 2008

- A sharp fall in equity prices and the financial turbulence saw the AP3 portfolio record a negative return for the first six months of the year. The net loss was SEK 17.9 billion, corresponding to a return of -8.0 % after expenses.
- Fund capital stood at SEK 207.6 billion on 30 June, a decrease of SEK 17.3 billion since the start of the year.
- AP3 has generated total returns of SEK 52.7 billion since inception in 2001. Including net inflows, fund capital has risen by SEK 73.6 billion in this period.



Statement by the CEO

The US credit crunch and world economic slowdown led to turbulent and weak conditions on financial markets in the first six months of the year. Apart from commodities (in which the AP funds cannot invest due to statutory requirements), most assets suffered declines in value during the period. Credit spreads surged as global equity markets retreated, with European bourses posting declines of almost 20%. US equity prices fell by around 10%, while the dollar weakened sharply both against the krona and the euro.

Against this backdrop, AP3's strategy of diversifying risk across a range of assets and regions, combined with active medium-term asset allocation, proved relatively successful. Through a balanced portfolio of equities and fixed income and an increasing part of alternative investments we restricted the decrease in fund capital to 8.0%.

During the spring we continued the implementation of an alpha and beta portfolio structure. Management of the liquid portfolio is now structured as an alpha group and a beta group instead of being divided between asset classes (equities and fixed income). The alpha group has the task of delivering satisfactory returns on its risk exposures without reference to how the long-term normal portfolio is allocated. The role of the beta group is to allocate fund capital in accordance with the long-term normal portfolio and with full cost and income efficiency. The separation of the portfolio will be largely accomplished during the course of this year.

The process of developing our portfolio of alternative investments continues, leading to increased diversification and higher risk-adjusted returns. Our real estate exposure will increase, partly due to AP Fastigheter's acquisition of Vasakronan. During the first half of the year we invested in two new areas where we see potential: agricultural land and senior bank loans. Together with our life science equity holdings and a micro cap fund, these new investments comprise our alternative strategies.

Our long-term mandate requires us to continuously develop the portfolio and to review our work over the longer term. Between inception in 2001 and 30 June 2008, AP3 has generated a total return of SEK 52.7 billion.

Kerstin Hessius, CEO

Fund capital

The market value of AP3's fund capital stood at SEK 207.6 billion on 30 June 2008, a decrease of SEK 17.3 billion from 31 December 2007.

Operating expenses for the first half were SEK 72 million, of which SEK 49 million were staff costs. Commission expenses totalled an additional SEK 66 million. These were expensed in the income statement and consisted of fixed commissions for external mandates, agreed commissions for private equity funds, and custody account expenses. The asset management cost ratio on an annualised basis was 0.13% of fund capital including commission expenses, and 0.07% excluding commission expenses.

Change in fund capital, SEK million	Jan-June 2008	Jan-Dec 2007
Fund capital at 1 Jan	224,897	212,198
Pension contribution	25,335	47,603
Pension disbursements	-24,631	-46,412
Administration fee to Swedish Social Insurance Agency	-76	-200
Transfers from phase-out funds	13	1,028
Net profit/loss for the period	-17,917	10,680
Total fund capital at end of period	207,621	224,897

Markets and the AP3 portfolio

The global economic downturn resulted in weak returns on virtually all AP3's portfolio assets, though a high weight in alternative investments and a relatively low weight in equities dampened the impact on returns.

The total return of -8.0% can be broken down into three parts, with the normal portfolio (fixed income, equities and alternative investments) accounting for -7.2%, strategic positions for -0.3% and active return for -0.5%.

AP3's portfolio at 30 June 2008

Market value per asset class ⁽¹⁾	Market value	
	SEK billion	% of portfolio
Listed equities	107.6	51.8%
– Swedish	22.4	10.8%
– foreign	85.2	41.0%
Fixed income	81.8	39.4%
– Swedish	28.0	13.5%
– foreign	53.8	25.9%
Total market-listed	189.4	91.2%
Real estate	6.8	3.3%
Alternative strategies	2.6	1.3%
Private equity ⁽²⁾	8.8	4.2%
Total alternative investments	18.2	8.8%
Total AP3 portfolio	207.6	100%

Return %	Beta	Return Alpha	Total	Contribution to total return
Listed assets	-	-	-	-7.5
– equities	-13.8	-0.2	-14.1	-7.7
– fixed income	1.4	-0.7	0.8	0.2
Alternative investments	-	-	-	-0.2
– real estate	-	-	1,4	0.0
– alternative strategies	-	-	-11.8	-0.1
– private equity	-	-	-3.5	-0.1
Strategic positions	-	-	-0.3	-0.3
Overall alpha strategies	-	0.0	-	0.0
Total AP3 portfolio				-8.0

(1) Cash used for position-taking in futures has been allocated between the relevant asset categories.

(2) Unlisted shares in the balance sheet includes private equity and unlisted real estate.

The global economic slowdown continued during the first six months of the year. US economic activity was further dampened by the sub-prime mortgage crisis, while in Europe growth began to slow appreciably as higher commodity prices fed through into higher real and expected inflation. However, new fast-growing economies such as China and Russia helped to support growth at the global level.

Against the backdrop of the sub-prime mortgage crisis, US monetary policy continued to be expansive. Rising global inflationary pressure resulted in continued rises in European and Asian interest rates, with increased yields also seen in global bond markets. As a result, AP3's fixed income portfolio recorded a return of only 0.8%. Our decision in 2005 to cut the duration of the fixed income portfolio by half means risk is at a relatively low level.

Return on the listed equity portfolio totalled -14.1%. During the winter we took a series of defensive positions in the equity portfolio, but these generated negative returns up to 30 June.

The AP3 portfolio has low currency risk, and foreign exchange exposures accounted for 9.0% of the total portfolio at the start of the year. Low exposure, in particular to the pound and dollar, made a positive contribution of 0.6 percentage points to portfolio return. At 30 June, currency risk was 12.0%, or SEK 24.8 billion, of the total portfolio.

Private equity

The international private equity market weakened during the first six months, both in terms of activity and returns. This was due primarily to financial market turbulence, particularly in the credit market.

The private equity portfolio recorded a first-half return of -3.5%. During the period, AP3 completed four new investment commitments totalling SEK 0.6 billion in private equity funds. To date, we have made investment commitments in 97 funds. As of 30 June, commitments excluding infrastructure investments totalled SEK 15.1 billion, of which SEK 9.3 billion was invested. Investment commitments in infrastructure assets stood at SEK 1.5 billion, of which SEK 0.9 million was invested.

Real estate

The Swedish real estate market performed patchily during the first six months. Transaction turnover decreased, mainly due to credit market turbulence, but local rental markets continued to perform well – an indication of a continued rise in rents.

AP3's real estate portfolio – consisting of holdings in AP Fastigheter, international real estate funds and timberland – recorded a return of 1.4% for the first six months, of which AP Fastigheter returned 3.2%.

AP3 signed a new investment commitment to an international real estate fund, our third such commitment. As of 30 June, real estate commitments totalled SEK 0.9 billion, of which SEK 0.5 billion was invested.

AP3's holding in AP Fastigheter was worth SEK 4.6 billion at 30 June. After the half-year mark, AP Fastigheter announced it would acquire Vasakronan from the government on 1 September. Vasakronan's property stock is valued at SEK 41.1 billion.

AP3's investment commitments in timberland totalled SEK 1.7 billion at 30 June, of which SEK 1.3 million was invested.

Alternative strategies

The first half of 2008 saw AP3 make its initial investments in two new areas: Russian agricultural land and senior bank loans. Together with life science equities and a micro cap fund, these investments comprise our alternative strategies.

The life science portfolio focuses on small listed companies in the European life science sector. Holdings are mainly in biotechnology, medical technology and diagnostics. The portfolio had a market value of SEK 1.4 million on 30 June and posted a return for the period of -19.1%. Conditions in the life science market were volatile, reflecting overall equity market nervousness that hit small companies and the biotech sector especially hard.

Our alternative strategies posted a return of -11.8% and had a market value of SEK 2.6 billion at 30 June 2008.

Corporate governance

AP3 voted at 128 annual general meetings and four extraordinary general meetings, both in Sweden and internationally. Our external managers also voted in a large number of companies on our behalf. AP3 had seats on the nomination committees of Enea and BioInvent in the run-up to the 2008 AGM season. A more detailed report on AP3's AGM-related governance activities from July 2007 to June 2008 is available on our website at www.ap3.se.

AP3 has a Joint Ethical Council with AP1, AP2 and AP4 to promote environmental and social responsibility at foreign companies. The council's annual report, detailing its operations and companies which it engaged in dialogue, was published in April and is available for download at www.ap3.se.

Other significant events

AP3 carried out an organisational restructuring in June as part of our strategy of separating beta (market exposure) from alpha (active risk) in management operations. The separation process has involved AP3 shifting from a management structure based on asset classes (equities and fixed income) to an alpha group and a beta group.

Further information

Tables and lists of AP3's assets are available on our website at www.ap3.se.

Next reporting date

The full-year financial statements and annual report for 2008 will be published in February 2009.

Accounting policies

This interim report was prepared in accordance with the accounting and valuation principles jointly developed and approved by the AP funds. These are presented in the 2007 annual report on page 45 under Note 1.

As of 2008, private equity management fees deemed likely to be repaid prior to profit sharing are reported under investments in private equity in the balance sheet.

The interim report has not been reviewed by AP3's auditors.

Stockholm, 29 August 2008

Kerstin Hessius
CEO

Income statement

SEK million

Revenue

	Jan-June 2008	Jan-June 2007	Jan-Dec 2007
Net interest income	1,315	28	648
Dividends received	2,664	2,314	3,160
Net income from listed shares and units	-18,044	8,894	452
Net income from unlisted shares and units	-527	1,753	4,143
Net income from interest-bearing assets	508	-748	2,171
Net income from derivative securities	-3,249	2,206	824
Net income from currencies	-446	238	-429
Net commission expenses	-66	-82	-152
Total operating expenses	-17,845	14,603	10,817

Operating expenses

Staff costs	49	39	85
Other administrative expenses	23	24	52
Total operating expenses	72	63	137

Net profit/loss for the period

-17,917	14,540	10,680
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Balance sheet

SEK million

Assets

	30 June 2008	30 June 2007	31 Dec 2007
Shares and units			
Listed	109,228	118,114	112,033
Unlisted	13,287	10,098	12,081
Bonds and interest-bearing assets	80,473	100,744	99,889
Derivatives	2,750	1,409	3,461
Cash and cash equivalents	3,301	3,085	4,001
Other assets	1,154	3,937	2,750
Prepaid expenses and accrued income	1,510	2,282	2,249
Total assets	211,703	239,669	236,464

Fund capital and liabilities

Liabilities

Derivatives	1,734	1,453	2,467
Other liabilities	2,246	10,405	8,983
Deferred income and accrued expenses	102	139	117
Total liabilities	4,082	11,997	11,567

Fund capital

Fund capital at 1 Jan	224,897	212,198	212,198
Net payments from the pension system	628	826	991
Transfers from special asset management and phase-out funds	13	108	1,028
Net profit/loss for the period	-17,917	14,540	10,680
Total fund capital	207,621	227,672	224,897

Total fund capital and liabilities

211,703	239,669	236,464
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Summary 2001 – June 2008

	Jan- June 2008	2007	2006	2005	2004	2003	Annual 2001- 2008	Annual 2006- 2008 ²⁾
Income and inflows								
SEK billion								
Net inflows from the pension system	0.6	2.0	1.6	2.9	1.7	2.6		
Net profit/loss	-17.9	10.7	18.6	28.8	16.1	19.8		
Fund capital 31 Dec	207.6	224.9	212.2	192.0	160.3	142.5		
Returns and expenses								
total portfolio, %								
Return before expenses	-8.0	5.1	9.7	17.9	11.4	16.4		
Operating expenses	0.07	0.06	0.06	0.07	0.10	0.10		
Commission expenses	0.06	0.07	0.08	0.09	0.11	0.08		
Return after expenses	-8.0	5.0	9.5	17.7	11.2	16.2	3.8	
Inflation	2.07	3.45	1.63	0.82	0.29	1.27	1.8	
Real return after expenses	-9.9	1.5	7.8	16.7	10.9	14.7	1.9	
SEK billion								
Return after commission expenses	-17.8	10.8	18.7	28.9	16.3	20.0	6.7	
Operating expenses	0.1	0.1	0.1	0.1	0.3	0.2	0.2	
Return after expenses	-17.9	10.7	18.6	28.8	16.1	19.8	6.6	
Return and risk								
Asset management								
Return %								
	Portfolio	-7.5	4.1	8.9	17.3	11.4	17.2	1.6
	Index	-7.1	4.4	9.1	16.1	11.4	17.3	1.9
	Active	-0.5	-0.3	-0.2	1.2	0.0	-0.1	-0.3
Risk (standard deviation) %								
	Portfolio	9.5	7.3	6.3	4.5	5.4	8.6	7.8
	Index	9.6	7.2	6.1	4.3	5.3	8.5	7.8
	Active	0.5	0.5	0.5	0.5	0.5	0.9	0.5
Information ratio		neg	neg	neg	2.2	0.0	neg	neg
Sharpe ratio		neg	0.1	1.1	3.4	1.6	1.6	neg
Currency exposure								
% of total portfolio	12.0 ⁽¹⁾	9.0 ⁽¹⁾	9.0 ⁽¹⁾	14.7 ⁽¹⁾	19.3	10.8		
External management								
% of total portfolio	40.2	39.9	40.4	45.3	30.8	28.8		
Asset management expenses								
% of assets under management								
Operating expenses	0.07	0.06	0.06	0.07	0.1	0.1		
Operating expenses + commission expenses	0.13	0.13	0.14	0.16	0.21	0.18		

	Jan- June 2008	2007	2006	2005	2004	2003
Market value per asset class						
SEK billion	207.6	224.9	212.2	192.0	160.3	142.5
of which:						
Swedish equities ⁽³⁾	22.4	24.0	26.8	30.7	27.3	23.8
Foreign equities ⁽³⁾	85.2	93.5	88.8	80.2	61.7	57.0
Nominal Swedish fixed income	20.4	13.6	18.0	25.6	28.4	25.6
Nominal foreign fixed income	44.2	59.3	44.5	42.5	24.8	22.7
Index-linked Swedish fixed income	7.6	7.4	12.0	6.7	6.7	10.2
Index-linked foreign fixed income	9.6	11.3	10.4	1.9	7.9	0.0
Swedish and foreign private equity ⁽³⁾	8.8	9.5	6.4			
Real estate (incl. timberland)	6.8	6.4	5.5	4.4	3.5	3.2
Alternative strategies ⁽⁴⁾	2.6					
Number of employees	53	51	50	48	46	45

(1) Excluding exposure through SEK-listed companies with a foreign domicile.

(2) Expenses converted to annualised rates.

(3) Swedish and foreign equities include listed equities and private equity prior to 2006. As of 2006, listed equities and private equity are reported separately. Unlisted shares in the balance sheet includes private equity and unlisted real estate.

(4) Private equity includes listed life science holdings prior to 2008. As of 2008, these holdings are included in alternative strategies.