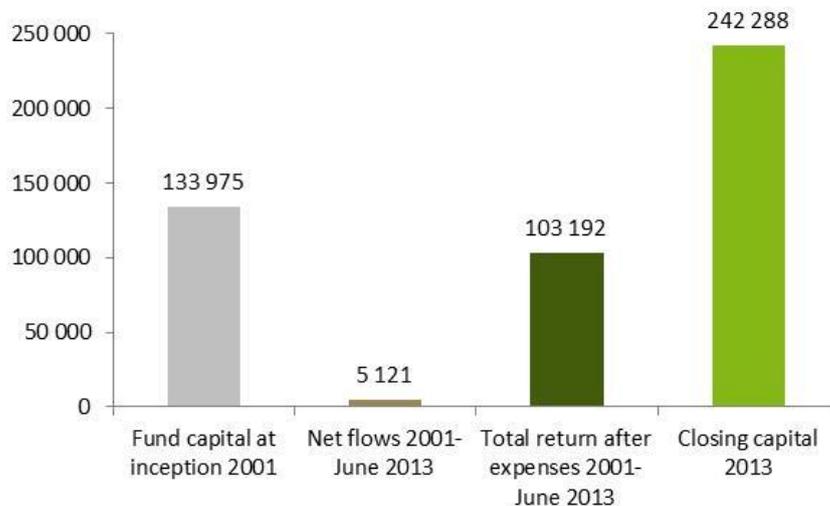


## INTERIM REPORT 1 JANUARY – 30 JUNE 2013

- The first six months of 2013 saw an initial surge in equity prices in many markets. However, volatility subsequently increased, bond yields rose and equity markets went into retreat.
- Income for the six months ended 30 June totalled SEK 12,462 million (9,848), equating to a return of 5.4% (4.6) after expenses.
- Fund capital stood at SEK 242,288 million at 30 June, an increase of SEK 9,332 million during the six months, and was negatively affected by payments of SEK 3,130 million to the pension system to balance a deficit in pension contributions.
- Over the last decade AP3 has generated an average annual return of 6.0%, representing a real (inflation-adjusted) return of 4.7%. For the last five years, the real return stands at 7.3%. The Fund has thus more than met its target of a 4% average real return over time.
- AP3 has made a positive contribution to the pension system since inception, with nominal returns outstripping the income index for the entire period.
- In 2013 AP3 continued to diversify the portfolio with the aim of achieving more stable returns and reducing exposure to volatility in global equity markets.
- AP3 increased its equity stake in property company Hemsö Fastigheter from 50% to 85% and continued the diversification of its real estate holdings by acquiring a portfolio of 72 commercial properties for just under SEK 1 billion via a wholly owned subsidiary. The properties are widely spread across Sweden, with a focus on southern and central regions.
- AP3 invested US\$50 million in a credit fund specialising in enterprises that take on sustainability-related challenges, including the transition to a low-carbon economy. After the end of the period AP3 made a further investment in green bonds issued by the World Bank. This lifted our total holdings of sustainable fixed income assets to SEK 2,650 million.

**Fund capital 1 Jan 2001- 30 June 2013, SEK million**



## FUND CAPITAL

Fund capital stood at SEK 242,288 million on 30 June, an increase of SEK 9,332 million during the six months. The figure includes payments of SEK 3,130 million to the pension system. These payments form part of a net capital outflow from the Fund to the pension system since 2009 to help plug a deficit between pension outgoings and pension contributions.

<b>Change in fund capital SEK m</b>	<b>Jan–Jun 2013</b>	<b>Jan – Dec 2012</b>
Fund capital at 1 Jan	232,956	214,106
Pension contributions	28,479	55,441
Pension disbursements	-31,492	-59,009
Administration fee to Swedish Pensions Agency	-117	-220
Income for the period	12,462	22,638
<b>Total fund capital at end of period</b>	<b>242,288</b>	<b>232,956</b>

## MARKET OVERVIEW AND INVESTMENT RETURNS

The year began with robust equity market performance in multiple markets after central banks had implemented a raft of fiscal stimuli in the preceding months. Market sentiment was strongly optimistic in the first quarter and saw Japanese equities surge 37% in the first four months of the year, helped partly by a weaker yen. Japanese prime minister Shinzo Abe announced that his primary political goal was to move the country's economy forward through deregulation and an expansionary monetary policy. Economic growth remained high in China, but the macroeconomic signals became more mixed as the year unfolded. A slowdown was detected in the US amid a drop in the purchasing managers index, though labour market data continued to improve. In Europe, the Cypriot financial market became embroiled in an acute liquidity crisis, while the southern eurozone continued to exhibit poor growth allied to far-reaching financial problems and a slow pace of reform. This contrasted with northern Europe, where economic indicators were more positive. Economic data from China gave mixed signals, though the consensus among many observers was that future growth would be somewhat slower than in recent times.

The end of May brought an abrupt halt to the equity market rally, with a sharp drop in share prices preceded by a strong rise in bond yields and continued high yield spreads in southern Europe. The direct trigger, however, came from the US Federal Reserve when it signalled an end to its bond market intervention policy. Another factor was rising concern over a lack of liquidity in the Chinese financial system, which resulted in rising interbank interest rates. The increase in the value of the Swedish krona, which began in late 2012, continued in the early part of the year but then was abruptly halted. By mid-year the krona had lost ground against most major currencies except the yen and sterling. Yields rose during the six months, especially on medium-term and long-term bonds.

AP3 reported income of SEK 12,462 (9,848) for the six months ended 30 June, representing a return of 5.4% (4.6) before expenses and 5.4% (4.6) after expenses. Allowing for deflation of 0.2% during the period, the real return was 5.6% (4.7). In the last 10 years the Fund has generated a real return of 4.7%, thus surpassing its long-term target of a 4% real return per year over time. AP3 has made a positive contribution to the pension system since inception, with nominal returns outstripping the income index for the entire period.

## Return per risk category

Risk in the AP3 portfolio is allocated across seven risk categories. Dividing the portfolio on these lines enables us to analyse and project future returns and risk in the different risk categories and their contributions to the total portfolio. We base allocations on these projections combined with macroeconomic analysis, valuations and assessment of investors' risk appetite.

Return per risk category 30 June 2013	Return %	Contribution to total return percentage points
Equities	8.6	4.2
Fixed income	-0.6	-0.1
Credits	1.1	0.1
Inflation	2.9	0.6
Currencies	-	0.3
Other exposure	6.2	0.2
Absolute return strategies	-	0.1
<b>AP3 total</b>	<b>5.4</b>	<b>5.4</b>

*Equities* posted a return of 8.6% (5.7) in the six months and were the largest contributor to overall return. Returns are fully hedged in Swedish kronor. Holdings of unlisted equities posted a return of 9.7% (7.0). Returns were highest on Japanese stocks followed by North American equities. Emerging markets were the only region to record a negative return during the period.

*Fixed income*, primarily comprising holdings of government bonds, posted a return of -0.6% (0.4) in the six months to 30 June. Duration – the average time until fixed income instruments mature – was 3.0 years (2.1). Returns on AP3's fixed income holdings were adversely affected by rising yields. Our investments in this category are primarily in Swedish and US government bonds and supranational bonds.

*Credits* predominantly comprise Swedish mortgage bonds and investment grade corporate bonds in Sweden and the US. This risk category recorded a return of 1.1% (3.0) and duration was 2.0 years (2.1).

*Inflation*, a risk category that groups investments in index-linked bonds and real estate holdings including timberland, agricultural land and infrastructure assets, generated a return of 2.9% (2.1).

AP3 expanded its real estate investments during the first six months of the year, raising its equity holding in Hemsö Fastigheter from 50% to 85% after acquiring shares from Kungsliden and selling a stake of 15% to Sagax. These transactions enabled the Fund to achieve its goal of increased exposure to Hemsö Fastigheter while guaranteeing industry expertise. Separately, AP3 acquired a portfolio of 72 commercial real estate units for just under SEK 1 billion. The properties are widely spread across Sweden, with a focus on southern and central regions. At 30 June AP3's real estate investments accounted for just over 11% of the total portfolio.

*Currencies* comprise AP3's exposure to changes in foreign exchange rates against the Swedish krona. Currency exposure, which is undertaken for the purpose of diversifying risk in the total portfolio, totalled 21.9% after hedging as at 30 June. The risk category added 0.3 percentage points (0.1) to total Fund income.

*Other exposure* consists of investments in convertible bonds, insurance-related bonds, volatility strategies and macro funds. The return on this risk category totalled 6.2% (18.3).

*Absolute return strategies* are mandates that set out to generate an absolute return. AP3 does not allocate capital to this risk category but works within risk management mandates set by the Board of Directors. Here the Fund operates about 30 mandates, some of which are managed internally and others externally.

Income for the six months ended 30 June totalled SEK 243 million (388), representing a contribution of 0.1 percentage points (0.2) to total return.

### Risk per risk category

Risk in the AP3 portfolio is expressed using the Value at Risk metric. VaR is defined as a 95% probability that the daily negative change in the value of the portfolio will not exceed a fixed amount. It is calculated based on portfolio exposure and market volatility and at 30 June stood at SEK 2,354 million (1,692). VaR is a statistical measure that in normal market conditions provides a good overview of portfolio risk. However, it is based on historic volatility and must therefore always be used in tandem with other risk measures to ensure that individual events and rapid market movements are not missed.

<b>Value at Risk per risk category 30 June 2013</b>	<b>Value at Risk, SEK m</b>	<b>Value at Risk, %</b>	<b>Contribution to total risk, percentage points</b>
Equities	2,049	0.85	78.2
Fixed income	70	0.03	1.7
Credits	49	0.02	0.9
Inflation	164	0.07	6.2
Currencies	793	0.33	8.3
Other exposure	128	0.05	2.1
Absolute return strategies	86	0.04	2.6
<b>AP3 total</b>	<b>2,354</b>	<b>0.97</b>	<b>100</b>

*The table shows the breakdown of total portfolio risk into AP3's seven risk categories. The risk categories exhibit covariance, which means total risk is lower than the total risk for each risk category. This is known as the diversification effect.*

Equities are AP3's largest risk category. Currencies and fixed income are seen as having negative covariance with equity risk and hence help to reduce total portfolio risk. Credits include both credit risk, which exhibits positive covariance with equity risk, and fixed income risk, which shows negative covariance with equity risk. Fixed income risk is often the larger of the two. AP3 deploys a diversification strategy between asset classes and geographic markets to further limit total portfolio risk. The diversification effect arising from this strategy is the reason why total risk per risk category is 29.5% higher than the risk for the total portfolio.

### Exposure per risk category

Exposure is defined as underlying value that is exposed to changes in value arising from market movements. AP3's exposure can be greater or less than underlying fund capital because we use derivatives to manage risk and ensure efficient asset management. Total exposure was 108.5% (102.8) at 30 June. At present, the use of derivatives is reducing portfolio currency risk and increasing equity risk. During periods of market instability derivatives can be an effective way to tailor the portfolio to new market conditions.

<b>Risk category 30 June 2013</b>	<b>Exposure, SEK m</b>	<b>Exposure, %</b>
Equities	130,448	53.8
Fixed income	31,522	13.0
Credits	27,887	11.5
Inflation	48,530	20.0
Currencies <sup>1</sup>	53,150 <sup>1</sup>	21.9
Other exposure	6,978	2.9
Absolute return strategies	17,445	7.2
<b>Total AP3</b>	<b>262,810</b>	<b>108.5</b>

<sup>1</sup> Currency exposure relates to foreign currency assets not hedged in Swedish krona and cannot be added to other exposure.

## LEGAL LIMITS

All AP3's investments throughout the period remained within the limits stipulated by the Pension Funds Act.

## EXPENSES

Operating expenses for the six months ended 30 June totalled SEK 87 million (86), of which SEK 54 million (57) were staff costs. On top of this, SEK 82 million (50) of commission expenses were expensed in the income statement, consisting of fixed commissions for external mandates, agreed commissions for unlisted equities, and custody account expenses. Total expenses (operating expenses plus commission expenses) were 0.14% (0.12) of assets under management on an annualised basis. The equivalent figure for internal expenses (operating expenses) was 0.07% (0.08).

AP3 aims to generate strong risk-adjusted returns over time while ensuring high cost-efficiency. Effective management is based on a strategy of continuous improvement and a decision-making model that focuses on expected return, risk and cost.

For the last eight years AP3 has participated in an annual study by Canadian consultants Cost Effectiveness Measurement (CEM) that benchmarks the Fund against 18 global pension funds with similar management profiles. The study looks at the combined cost of the funds' asset management operations, the size of their capital under management, the composition of their portfolios and their ratio of active management. The most recent study, for 2012, revealed AP3's costs to be 22% lower than the benchmark group average. This reflects the fact that AP3 has a higher ratio of internal management than the benchmark average and also that the Fund pays less for external asset management mandates. We aim at all times to generate higher value at a lower cost than the average achieved by comparable pension funds.

## CORPORATE STEWARDSHIP

AP3 voted at 65 Swedish and 509 foreign AGMs during the 2013 AGM season and held seats on the nomination committees of six companies: Aerocrine, Arise Windpower, Bergvik Skog, Cellavision, DiaGenic and Karolinska Development. A detailed presentation of our AGM-related activities and our environmental and social responsibility engagements from July 2012 to June 2013 will be published on the website during the third quarter.

AP3 works closely with AP1, AP2 and AP4 via a joint Ethical Council to promote environmental and socially responsible business practices in our foreign holdings. The Ethical Council published its annual report, which includes information on ongoing corporate dialogues, in April 2013. The report can be downloaded from [www.ethicalcouncil.com](http://www.ethicalcouncil.com).

## **HUMAN RESOURCES**

The staff headcount was 54 at 30 June, down from 56 at the start of the year.

## **BOARD OF DIRECTORS**

In May the government appointed Peter Englund as new non-executive director to succeed Kari Lotsberg, who left the Board after eight years.

## **GOVERNMENT REVIEW**

In its annual performance review of the AP funds, the government noted that all the funds had achieved their targets in the prior decade and that their returns had exceeded the income index since inception, meaning that the funds had made a positive contribution to the Swedish pension system. The government also highlighted the value of risk diversification and the need to evaluate investment performance over the long term. The review said long-term returns had improved from the prior year and that the funds in 2012 had further developed their practices for making environmentally and socially responsible investment an integral part of their day-to-day asset management and analysis. The government added that scope existed for improved comparability in how the funds report return and risk.

## **FURTHER INFORMATION**

A list of assets as at 30 June 2013 is available along with other data on the AP3 website at [www.ap3.se](http://www.ap3.se) under "Asset Management".

## **NEXT REPORTING DATE**

The full-year financial statements and annual report for 2013 will be published in February 2014.

## **ACCOUNTING POLICIES**

This interim report was prepared in compliance with the accounting and valuation principles jointly developed and approved by the AP funds. These are presented in the 2012 annual report on page 35 under Note 1. The annual report is available on the AP3 website at [www.ap3.se](http://www.ap3.se).

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

Stockholm, 26 August 2013  
*Kerstin Hessius, CEO*

<b>Income statement</b>	<b>Jan-Jun 2013</b>	<b>Jan-Jun 2012</b>	<b>Jan-Dec 2012</b>
<b>Income, SEK m</b>			
Net interest income	1,398	2,039	3,771
Dividends received	2,109	2,248	3,183
Net income from listed shares and investments	6,652	4,483	13,518
Net income from unlisted shares and investments	1,731	128	2,468
Net income from fixed income assets	-1,238	140	1,273
Net income from derivatives	1,444	178	1,078
Net income from currencies	535	768	-2,351
Commission expenses	-82	-50	-119
<b>Total income</b>	<b>12,549</b>	<b>9,934</b>	<b>22,821</b>
<b>Operating expenses</b>			
Staff costs	-54	-57	-117
Other administrative expenses	-33	-29	-66
<b>Total operating expenses</b>	<b>-87</b>	<b>-86</b>	<b>-183</b>
<b>Profit for the period</b>	<b>12,462</b>	<b>9,848</b>	<b>22,638</b>
<b>Balance sheet</b>			
<b>Assets, SEK m</b>	<b>2013-06-30</b>	<b>2012-06-30</b>	<b>2012-12-31</b>
Shares and units,			
Listed	117,782	103,909	112,954
Unlisted	28,345	23,581	24,812
Bonds and other fixed income assets	99,808	97,339	99,226
Derivatives	2,116	2,080	2,565
Cash and cash equivalents	1,217	937	1,668
Other assets	18,882	12,204	17,072
Prepaid expenses and accrued income	1,311	1,323	1,913
<b>Total assets</b>	<b>269,461</b>	<b>241,373</b>	<b>260,210</b>
<b>Fund capital and liabilities</b>			
<b>Liabilities</b>			
Derivatives	3,630	1,209	556
Other liabilities	23,498	17,835	26,640
Deferred income and accrued expenses	45	42	58
<b>Total liabilities</b>	<b>27,173</b>	<b>19,086</b>	<b>27,254</b>
<b>Fund capital</b>			
Fund capital at 1 Jan	232,956	214,106	214,106
Net payments to national pension system	-3,130	-1,667	-3,788
Profit for the period	12,462	9,848	22,638
<b>Total fund capital</b>	<b>242,288</b>	<b>222,287</b>	<b>232,956</b>
<b>Total fund capital and liabilities</b>	<b>269,461</b>	<b>241,373</b>	<b>260,210</b>

<b>Financial summary</b>	<b>Jan–Jun 2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Income and inflows, SEK bn</b>						
Net flows to/from pension system	-3.1	-3.8	-1.2	-4.0	-3.9	0.9
Profit/loss for the period	12.5	22.6	-5.5	18.3	29.4	-44.8
Fund capital at end of period	242.3	233.0	214.1	220.8	206.5	181.0
<b>Return and expenses total portfolio, %</b>						
Return before expenses	5.4	10.7	-2.4	9.1	16.4	-19.7
Operating expenses <sup>1</sup>	0.07	0.08	0.07	0.07	0.08	0.07
Commission expenses <sup>1</sup>	0.07	0.05	0.04	0.07	0.09	0.07
Return after expenses	5.4	10.7	-2.5	9.0	16.3	-19.8
Inflation	-0.2	-0.1	2.0	2.3	0.9	0.9
Real return after expenses	5.6	10.7	-4.4	6.5	15.3	-20.5
<b>SEK bn</b>						
Return	12.5	22.8	-5.3	18.5	29.6	-44.6
Operating expenses	0.1	0.1	0.2	0.2	0.1	0.1
Return after expenses	12.5	22.6	-5.5	18.3	29.4	-44.8
<b>Annualised return after expenses, %</b>						
Five years	8.5	1.9				
Ten years	6.0	6.7				
<b>Risk</b>						
Risk (standard deviation) <sup>3</sup> , %	5.3	5.3	9.2	7.0	9.9	16.6
Risk (standard deviation) for liquid assets, %	6.4	6.3				
Sharpe ratio	1.9	1.8	neg.	1.2	2.0	neg.
Sharpe ratio for liquid assets	1.5	1.6				
<b>Currency exposure<sup>4</sup></b>						
% of total portfolio	21.9	22.0	19.3	11.3	8.3	13.8
<b>External management</b>						
% of total portfolio	36.0	35.7	34.8	41.0	40.7	38.8
<b>Asset management expenses</b>						
% of assets under management						
Operating expenses <sup>1</sup>	0.07	0.08	0.07	0.07	0.08	0.07
Operating expenses plus commission expenses <sup>1</sup>	0.14	0.14	0.11	0.14	0.17	0.14
<b>Staff headcount</b>						
	54	56	57	56	55	50

<sup>1</sup> Annualised figures.

<sup>2</sup> Measured as change in consumer price index at 30 June compared to 31 December the prior year.

<sup>3</sup> As of 2010 figures relate to the total portfolio. Prior to 2010, risk was shown for the listed portfolio only.

<sup>4</sup> Excluding exposure to SEK-listed companies with foreign domicile.

<b>Market value per asset category</b>	<b>Jan-Jun 2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Total, SEK bn</b>	<b>242.3</b>	<b>233.0</b>	<b>214.1</b>	<b>220.8</b>	<b>206.5</b>	<b>181.0</b>
<i>Of which</i>						
Swedish equities	29.5	26.2	28.7	32.0	26.5	17.9
Foreign equities	88.5	81.0	76.3	78.8	76.2	66.0
Nominal fixed income, Swedish	43.1	54.2	41.7	31.6	13.6	13.7
Nominal fixed income, foreign	18.4	17.2	14.6	28.7	42.3	39.2
Index-linked bonds, Swedish	14.9	15.3	17.1	1.5	0.1	5.4
Index-linked bonds, foreign	7.5	2.8	4.2	13.7	14.2	8.7
Unlisted equity, Swedish and foreign <sup>1</sup>	10.5	11.4	11.5	10.9	9.8	10.8
Real estate exposure	26.2	19.6	15.7	16.9	16.0	16.2
New strategies <sup>2</sup>	-	-	-	6.9	7.7	3.1
Other assets <sup>3</sup>	3.8	5.2	4.2	-	-	-

<sup>1</sup> Unlisted equities included listed life science holdings prior to 2008. As of 2008, life science investments are included in New Strategies.

<sup>2</sup> New Strategies were allocated between the various asset categories during 2011. Investments falling outside the scope of the different asset categories are classified as "Other assets".

<sup>3</sup> Other assets include investments in convertible bonds and insurance-related risk.