



Sixth AP Fund  
Annual Report 2008

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# The Sixth AP Fund in brief

## Unique mission

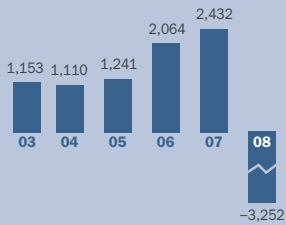
The Sixth Swedish National Pension Fund (the Sixth AP Fund) manages public pension funds in order to create high long-term returns and take into consideration the need for satisfactory risk diversification. The task is to invest in small and medium-sized growth companies, mainly Swedish, thus contributing to the development of Swedish industry.

The mission and business model of the Sixth AP Fund differ from those of the other Swedish National Pension Funds, but also from those of private equity companies.

The business model has been refined to satisfy the financial targets in the investment mandate. Investment activities are divided up into company investments and investments in funds and investment companies and are managed by an organisation comprising seven business areas.

The Sixth AP Fund received its mandate in 1996 and started with investment funds of SEK 10.4 billion. By the end of 2008, this had grown by SEK 6 billion to SEK 16.4 billion, during a period which included two severe economic downturns.

### Profit/loss, SEKm



Profit/loss after costs 2003–2008

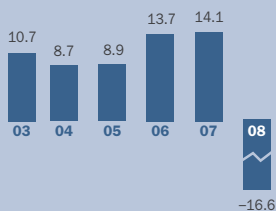
## Profit/loss – realised and unrealised 2003–2008

SEKm	2003	2004	2005	2006	2007	2008	2003–2008
Realised profit/loss, net financial items and management costs	-1,525	-213	839	1,872	1,271	608	2,852
Unrealised profits at valuation of holdings	2,678	1,323	402	192	1,161	-3,860	1,896
<b>Profit/loss</b>	<b>1,153</b>	<b>1,110</b>	<b>1,241</b>	<b>2,064</b>	<b>2,432</b>	<b>-3,252</b>	<b>4,748</b>

The loss reported in 2008 is primarily attributable to an unrealised profit/loss from the reversal of previous upward valuations. In this context, it is important to point out that there is a good chance of being able to recover these before the investments are divested. The realised

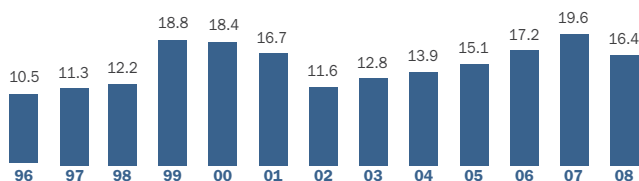
profit/loss, which amounted to just over SEK 600 million, consist of profits from the divestment of companies, interest rates and dividends and deductions for management costs. For the period 2003–2008, the Sixth AP Fund achieved an aggregate profit/loss of SEK 4.7 billion.

### Return, %



Return after costs 2003–2008

## Fund capital growth 1996–2008



Since the inception of the Sixth AP Fund, its capital has grown by SEK 6 billion, from SEK 10.4 billion to SEK 16.4 billion, which corresponds to a growth in value of around 58 per cent and an average annual growth of 3.8 per cent. Adjusted for the consumer price index (CPI), which during the same period averaged

1.3 per cent, the Sixth AP Fund's real return has averaged 2.5 per cent per year.

During the six-year period 2003–2008, annual growth amounted to 5.9 per cent and the CPI averaged 1.4 per cent. The Sixth AP Fund's real return thus averaged 4.5 per cent per year during 2003–2008.

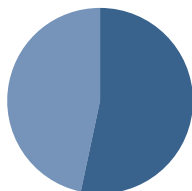
## Profit/loss breakdown

SEKm	2003	2004	2005	2006	2007	2008	Average return %	Required return %	PME %*
Mature stage	1,191	810	1,591	1,637	1,916	-1,103	20.0	8.5	9.4
Expansion stage	-283	79	-638	-261	527	-646	-6.6	10.7	1.3
Listed Small Cap	—	—	—	1,258	80	-1,027	3.1	7.9	-3.6
	<b>908</b>	<b>889</b>	<b>953</b>	<b>2,634</b>	<b>2,523</b>	<b>-2,776</b>	<b>8.9</b>	<b>9.0</b>	<b>4.0</b>
Treasury, Risk management and Internal costs	245	221	288	-570	-91	-476	—	—	—
<b>Profit/loss</b>	<b>1,153</b>	<b>1,110</b>	<b>1,241</b>	<b>2,064</b>	<b>2,432</b>	<b>-3,252</b>	—	—	—

\* See page 44 under Definitions.

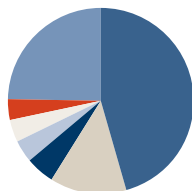
## Capital for investment activities 2008

### Investment activities



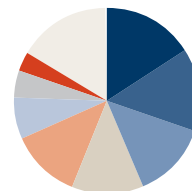
■ Company investments  
■ Fund investments

### Major company investments



■ Norrporten  
■ Solibro  
■ Volvofinans Bank  
■ AP Fordoninvest  
■ Lindab International  
■ Others  
■ Sportmanship Invest

### Major fund investments by management team

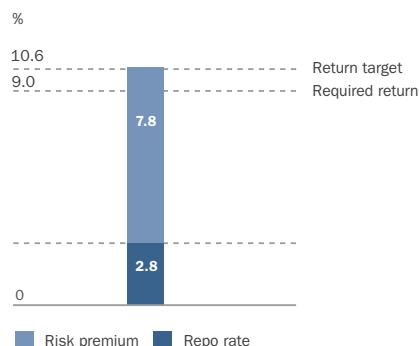


■ Nordic Capital  
■ SEB Fonder  
■ CapMan  
■ Ratos  
■ SLS Invest  
■ Accent Equity Partners  
■ EQT  
■ Lannebo Fonder  
■ Others

## Return target for investment activities

During the period 2003–2008, the Sixth AP Fund's investment activities generated an average return of 8.9 per cent per year, corresponding to a total of SEK 5,131 million, which is in line with the required return. The business targets are decided by the Sixth AP Fund's Board and consist of a long-term target and a short-term requirement. The definition of the long-term target is that the annual return on the total amount of capital invested shall correspond to the risk-free interest rate plus a risk premium.

**See page 9 for more information.**



# Despite making a loss, the crisis has created opportunities

Obviously I am not satisfied with our performance in 2008, which resulted in a loss. The financial crisis and severe economic slowdown proved too difficult to cope with. On a more positive note, our investments in companies and funds will continue to receive strong support. In other words, we have sufficient resources to help them through the current difficult economic climate.



At the same time, it is important to remember that the Sixth AP Fund's mission is to invest in small and medium-sized growth companies, and in doing so demonstrate our long-term approach and staying power. Our investment plans normally span 5–10 years, and we are never forced to sell holdings at a given date. The loss reported in 2008 is due to a downward revaluation of assets that can feasibly be transformed into future increases in value. The idea, of course, is that we wait until such a time to sell holdings in companies and funds, in accordance with our long-term investment plans.

It is also worth mentioning that despite two severe economic downturns – the first when the IT bubble burst at the beginning of the decade, and the second during 2008, resulting in a financial crisis and economic slowdown – we still manage to have a surplus of SEK 6 billion, having raised our initial capital of SEK 10.4 billion to a fund capital of SEK 16.4 billion.

## Greater interest in the Sixth AP Fund's unique mission

It has been clear to see just how much the interest in the Sixth AP Fund's unique mission has grown. The significance of the Sixth AP Fund's role as a long-term investor in the business sector has, in my opinion, grown just as much. Unlike the other AP Funds, our role is to invest in small and medium-sized growth companies. However, for such companies, the climate for long-term investments has probably never been as tough as it is today.

As the economic crisis has gained momentum, we have received an increasing number of requests to boost the amount of venture capital available to the Swedish business sector and in doing so encourage

growth for the future. It remains to be seen what models or solutions this might conceivably generate. This will be determined in collaboration with the business sector and the public sector. However, one thing is clear: the issue of creating sustainable, long-term economic conditions for investments in small and medium-sized companies has rarely been such a burning issue.

Ultimately, Sweden will in the future need an even greater diversity of viable small and medium-sized growth companies that are given the opportunity to develop in order to prepare the way for future employment and welfare.

#### Company investments prepared for the future

Our directly owned company investments are faring well, despite the market unrest. Our three largest holdings – Norrporten, Volvofinans Bank and Lindab – showed continued stable growth in their respective business operations in 2008. The profits reported by Norrporten and Volvofinans Bank ensured a continued high yield on our holdings. At Volvofinans Bank, a refinancing of the loan portfolio has been secured as a result of the company's participation in the Swedish government's bank guarantee programme. The poor figures for new car sales in 2008 has a marginal impact on earnings since most of its earnings are generated by loans made to customers' existing fleets. However, Lindab's share price fell dramatically in 2008, despite the company reporting very good figures. Over the years, Lindab has provided us with very good returns. In 2008, we decided to wind up the Danish operations of the Meca Group. The background to this decision is that the business in Denmark has been running at a loss for several years, while the company has been expanding in Norway and Sweden.

Our joint investments with business partners, in other words, activities where the Sixth AP Fund has invested in companies together with other investors, continue to show positive development. Although the portfolio is still in its early stages, the portfolio companies reported rapid growth in sales and market share in 2008. Intensive efforts are ongoing to

develop the companies, for example by strengthening their executive management teams and boards to prepare them for a faster rate of expansion. We have also developed a training programme aimed at board members to help them take an even more long-term approach and in doing so boost the development of the companies. In 2009, efforts will focus on developing existing companies through continued strategic activities and by identifying add-on acquisitions which complement the companies and provide synergies.

In order to reach companies outside the three main cities, the Sixth AP Fund has for some time been operating what we have chosen to call Local Networks. The model involves regular visits to different parts of Sweden where we organise meetings with representatives of the regional and local business sector. The aim of this initiative is to identify potential growth companies which have the ambition and conditions needed to grow and develop. We also study growth sectors of particular interest, such as the tourism industry. This led to our investment in Orsa Grönklitt, which has been in the business for some time and which now has the potential to attract even more visitors all year round.

#### Our funds reach 300 growth companies

The Sixth AP Fund has a long track record as an investor. We have invested continuously and focused on maintaining a good mix in our portfolio.

One way of achieving this has been to invest in funds which invest in small and medium-sized growth companies. This approach has enabled us to reach more than 300 growth companies. We can also benefit from the expertise and experience which the funds can offer in their respective fields through their fund managers. We believe that this approach enables us to diversify risk and accomplish our mission to invest in small and medium-sized growth companies.

The Sixth AP Fund invested in a buyout fund for the first time in 1997 and has since then committed capital, in other words, assumed responsibility to continuously make investments, to a series of funds. The Sixth AP Fund has made a lot

of money from these investments, which have often produced a high payback and thus generated good returns.

As I have already mentioned, the turbulence on financial markets, particularly during the fourth quarter of 2008, was difficult to cope with. This has led to a downward revaluation of buyout funds which invested in companies in cyclical sectors, and this meant that the performance of the Sixth AP Fund's buyout portfolio as a whole resulted in a loss for 2008. However, despite the difficult economic climate, I envisage many opportunities for our funds. Take EQT Opportunity, for example, which focuses on companies that are experiencing problems with their profitability or business operations and which aims to achieve a turnaround to achieve profitability. Valedo and Accent, both of which focus on small and medium-sized growth companies, are making some interesting and potentially profitable investments at a time when many business valuations have fallen to low levels. This is just to name a few.

The Sixth AP Fund's holdings of small cap funds and listed private equity companies reduced in value in 2008, but still outperformed the stock market overall. I believe that the portfolio is well poised to show strong development in a more positive market climate.

Venture funds take a long time to develop. We have reduced our exposure to venture funds in recent years and turned our attention to new solutions for identifying potential returns.

The problems in life science are endemic. Even if demographic development offers a long-term incentive for investments in the segment, it currently takes a long time to reach profitability. For this reason, funds with a limited life are probably not the best vehicle for investments in the segment.

Greater flexibility is needed. In 2008, we converted our largest life science fund, SLS Venture, into an investment company. This type of company structure means that we can focus on long-term activities that are not limited in time, in the same way as we work with other directly owned holdings in the Sixth AP Fund.

### We are part of the solution

Despite the difficult economic climate at present, we should remember that the crisis creates new opportunities. Historically speaking, the Sixth AP Fund has made some of its most profitable investments during economic downturns. This is equally true of investments in small and medium-sized growth companies and of investments in funds.

As the investment climate has become harsher and amidst growing concerns about how growth companies in different sectors will survive, the interest in our unique mission has grown. According to many market analysts there is a risk that the financial crisis creates a hiatus in the rate of investment in areas such as new technology for industry and sustainable solutions to environmental problems.

This situation will prove to be a real test of the Sixth AP Fund's staying power and ability to accomplish its mission in a difficult economic climate. Our existing investments are safe and secure; we have already created a stable platform so that we can position ourselves for the future. As regards the discussion about new models and solutions to tackle the investment and growth problems that tend to arise in a difficult economic climate, I am convinced that the Sixth AP Fund has the expertise and the experience to provide whatever assistance is needed.

Gothenburg, 19 February 2009

Erling Gustafsson

# The Sixth AP Fund and the pension system

Together with the First to Fourth Swedish National Pension Funds, the Sixth AP Fund operates as a financial buffer for the national public pension system. Unlike the other Swedish National Pension Funds, the Sixth AP Fund is an evergreen fund, which means that there are no regular payments to or withdrawals from the fund.

The Swedish pension system can be compared to a pyramid with three levels. The national public pension forms the base and represents the main source of income for most pensioners. The next level is the occupational pension, which is a benefit paid for by employers, and at the top, we have voluntary, private pension savings.

## National public pension

The national public pension consists of two components: income-related pension and premium pension.

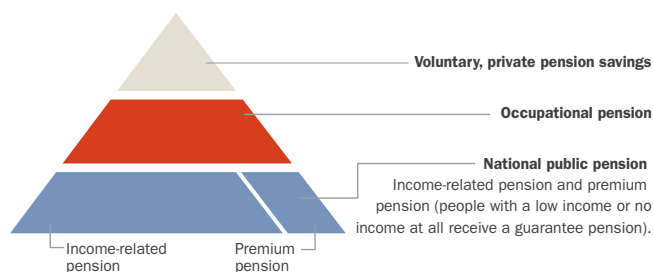
Each month, the employer pays in 18.5 per cent of the employee's pensionable income to the national public pension system via the employer's contribution. Of this, 16 percentage points go towards the income-related pension, which is administered by the Swedish Social Insurance Agency and 2.5 percentage points go towards the premium pension, which is administered by the Premium Pension Authority (PPM).

The size of the future income-related pension is based on income earned during working life, also known as life-time earnings. The contributions towards income-related pension are not physically managed from an account pending the individual's retirement. Instead, the system is structured so that current contributions finance the payments made to today's pensioners. In order to be able to calculate the income-related pension of each and every individual, the pension entitlement earned is registered and the amount reported is revised upwards annually using an index which measures average income growth in Sweden. When pensions are withdrawn, the payment is being financed by the current working population through their pension contributions.

The annual allocation made to the premium pension is saved in an individual premium reserve account at the PPM and the size of future premium pensions is determined by the growth of those mutual funds chosen by the individual and

## The Swedish pension system – a three-part pyramid

The Swedish pension system can be described as a pyramid where the national public pension, which accounts for the main source of income for most pensioners, forms the base. Source: Swedish Social Insurance Agency



managed by private fund managers or by the Seventh Swedish Pension Fund.

In addition to the income-related pension, there is also what is known as a guarantee pension, a supplement intended for people with a low income or no income at all. The guarantee pension is financed by tax revenues through the national budget and not via the national public pension system.

**Swedish National Pension Funds provide balance**

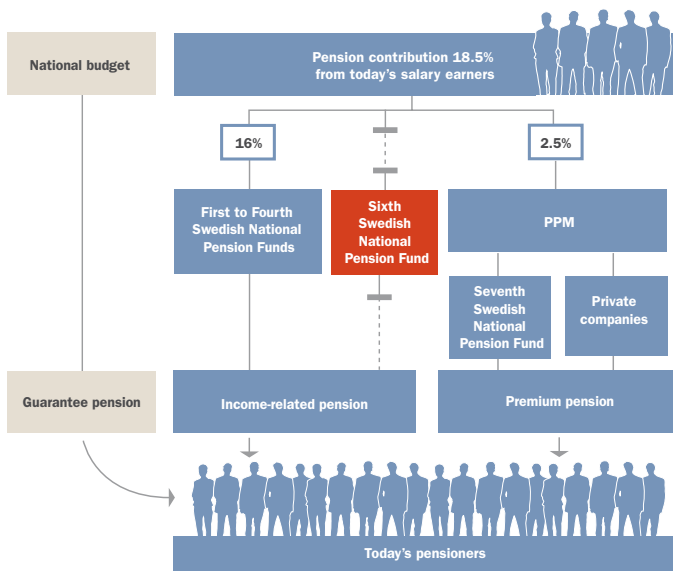
The Swedish National Pension Funds (First, Second, Third, Fourth and Sixth Swedish National Pension Funds) operate as a financial buffer for the national public pension system. Their mission is to invest the managed capital and create high long-term returns taking into account the need for a satisfactory risk diversification. Moreover, as regards the First to Fourth Swedish National Pension Funds, any surplus resulting from the contributions paid in and pensions paid out as income-related pension is managed by the Swedish National Pension Funds whereas any deficit must be covered by their funds.

**The role of the Sixth AP Fund**

The Sixth AP Fund also manages a degree of buffer capital but, unlike the other Swedish National Pension Funds, is an evergreen fund, which means that there are no regular payments to or withdrawals from the fund. Accordingly, profits can be reinvested, whereas losses must be covered by the fund capital. The investment regulations differ from those applying to the other buffer funds in that the Sixth AP Fund has the mission of investing in small and medium-sized Swedish growth companies, by direct or indirect ownership, thus contributing to the development of Swedish industry. At the inception of the Sixth AP Fund in 1996, it received an initial capital of SEK 10.4 billion. This capital has grown over time and at the end of 2008 stood at SEK 16.4 billion.

For more information about the pension system, see [www.apfond6.se](http://www.apfond6.se) and [www.fk.se](http://www.fk.se)

**The national public pension – the foundation of the Swedish pension system**



The current national public pension system consists of two components: income-related pension and premium pension.

The First to Fourth Swedish National Pension Funds manage any differences that arise between the payments made by today's salary earners and those made to today's pensioners in respect of the income-related pension.

The Sixth AP Fund is an evergreen buffer fund, which means that there are no payments to or from the fund.

The guarantee pension is a supplement to the income-related pension intended for people with a low or non-existent income and it is financed by tax revenues through the national budget and is thus separate from the national public pension system.

Provisions for the premium pension are administered by the Premium Pension Authority (PPM) and the capital is invested in mutual funds that are managed by private fund managers which the individual is able to choose. If the individual does not actively choose a private fund manager, the premium pension is managed by the Seventh Swedish National Pension Fund in what is known as the Premium Savings Fund.

## Annual net injection of capital from the buffer funds

To illustrate how different courses of events can affect the financial strength of the pension system and the size of pensions, the Swedish Social Insurance Agency has produced three scenarios of the system's development over the next 75 years. In all three scenarios, pension disbursements are expected to exceed pension contributions from around 2010 onwards and for some years to come. In the event of a deficit, disbursements are covered by funds from the buffer funds, the First to Fourth Swedish National Pension Funds.

In the base scenario, demographic developments are in line with Statistics Sweden's latest population forecast. Real growth in average income is expected to be 1.8 per cent per year and the real returns of buffer funds are expected to be 3.25 per cent per year.

The size of the buffer funds can be expressed in terms of fund strength, in other words the fund capital divided by pension disbursements for the year. Fund strength shows how many years of pension disbursements can be financed by the funds without additional contributions or return on assets. In the base scenario, fund strength gradually decreases because of the net contribution deficit. Fund strength reaches its lowest point in 2036, when it is equivalent to 3.4 years of pension disbursements.

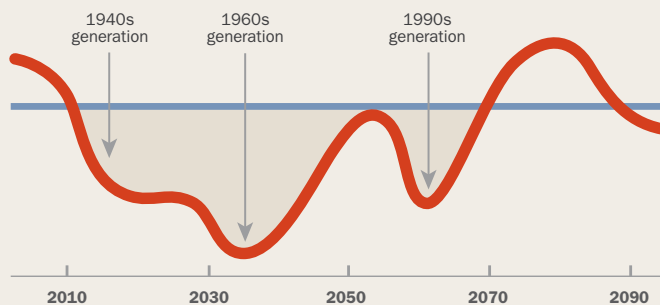
### The pension system's automatic braking mechanism

For the pension system to work, the system's liabilities must over time be in balance with its assets. The liabilities correspond to the value of future pension disbursements. The assets consist mainly of the value of future contributions paid into the system.

The national public pension system has an automatic balancing mechanism, often referred to as an automatic braking mechanism, which ensures that the value of the pensions is not indexed upwards in line with income growth if the system suffers from a persistent deficit.

In March 2009, the Swedish Social Insurance Agency will publish its annual report for the pension system in 2008. This will contain details of the system's assets in relation to its liabilities. Weaker income growth, combined with the severe stock market decline that has drained the reserves of the Swedish National Pension Funds, will very probably result in the automatic braking mechanism being activated in 2010.

Source: Swedish Social Insurance Agency



Pension disbursements are not expected to exceed pension contributions until 2010 at the earliest, according to calculations by the Swedish Social Insurance Agency. This will put pressure on the buffer funds to provide an annual net injection of capital.

# The operations of the Sixth AP Fund

The Sixth Swedish National Pension Fund (the Sixth AP Fund) manages public pension funds in order to create high long-term returns and take into consideration the need for satisfactory risk diversification. The task is to invest in small and medium-sized growth companies, mainly Swedish, thus contributing to the development of Swedish industry.

## Mission

The Sixth AP Fund is a state-owned pension fund which has the mission of managing part of Sweden's public pension funds. The Sixth AP Fund has played an active part in the Swedish private equity market since 1996.

The basis for its mission can be found in the Sixth Swedish National Pension Fund Act (2000:193). The mission is centred around three pillars: the overall goal of generating high long-term returns, taking into consideration the need for satisfactory risk diversification and an investment focus on small and medium-sized companies.

The Sixth AP Fund aims to generate a high return on the capital invested and takes into account the need for satisfactory risk diversification by investing in companies which operate in different sectors and are at different stages of development. The focus on small and medium-sized companies is primarily achieved by two investment strategies: direct investment in companies or indirect investment through private equity funds, equity funds and investment companies. Investments are made in both unlisted and listed companies.

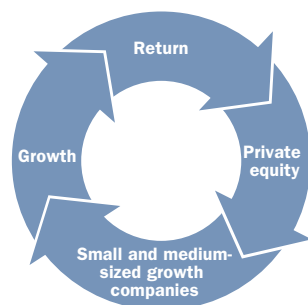
The Sixth AP Fund contributes to Swedish industry by providing access to capital while taking into consideration the

need for a long-term and assertive approach, but also by providing different types of expertise through the formation of networks consisting of people with a broad range of skills who are capable of working in or close to companies in need of growth.

### Evergreen fund

Unlike the four other Swedish National Pension Funds, the Sixth AP Fund is an evergreen fund, which means that there are no regular payments to or withdrawals from the Sixth AP Fund. This means that the returns from previous investments are re-invested as new private equity in other companies with the aim of providing growth and of generating continued high returns. The liquidity reserve maintained for completing new and follow-on investments and for covering other capital requirements in existing companies is managed by the Sixth AP Fund's Treasury.

At the inception of the Sixth AP Fund in 1996, it received an initial capital of SEK 10.4 billion. This capital has grown over time and at the end of 2008 stood at SEK 16.4 billion.



### Unique mission

The Sixth AP Fund has a unique mission. The mission and business model differ from those of the other Swedish National Pension Funds, but also from those of private equity companies.

The Sixth AP Fund's returns from previous investments are re-invested as new private equity in other companies with the aim of providing growth and of generating continued high returns.

## Board responsibilities

The Board of the Sixth AP Fund is appointed by the government, but has independent status and takes full responsibility for the Sixth AP Fund's operations. Among other things, this means that the government cannot exercise any direct control over the Sixth AP Fund's operations or issue directives regarding the day-to-day administration. The Sixth AP Fund's mission and operations are therefore based on the provisions of the Sixth Swedish National Pension Fund Act (2000:193).

The Board is responsible for drawing up and reviewing annually rules of procedure and instructions for the Sixth AP Fund's Managing Director. The rules of procedure regulate, among other things, the Board's meetings, operational reviews and the division of duties between the Board and Managing Director, as well as the Board's own annual evaluation of its activities.

In order to establish guidelines for the Sixth AP Fund's operations, the Board has adopted a series of policies. Among other information, these policies contain the fundamental core values that should be common to all employees in the organisation and anyone closely affiliated with the Sixth AP Fund. On the basis of these policies, the Managing Director establishes instructions and guidelines to clarify the policies, rules and regulations, attitudes and processes that should govern the operations of the Sixth AP Fund. All policies and instructions should be reviewed annually. These policies, instructions, guidelines and process descriptions, together with legislation and rules and regulations, form part of the Sixth AP Fund's corporate governance documentation.

### Allocation plan and return target

Decisions regarding the Sixth AP Fund's strategic plan and allocation plan are taken by the Board, who also define the

Sixth AP Fund's short-term and long-term return targets.

The Sixth AP Fund's risk premium model forms the base of the return target used to evaluate potential investments and to monitor completed investments.

The definition of the long-term target is that the annual return on the total fund capital shall correspond to the risk-free interest rate plus a risk premium of 4.5 per cent over five years. The short-term requirement is formulated as an absolute required return and is set each year by the Board. The risk-free interest rate is defined as the applicable repo rate.

The return targets are calculated once the Board has determined the long-term allocation of the Sixth AP Fund's capital. Each asset class is allocated a risk premium which is then added to the applicable repo rate. The risk premium is formulated on the basis of the sector and growth stage of the investment. The portfolio's return targets are then appraised to arrive at an overall return target for the Sixth AP Fund. The required return for the 2008 financial year was 7.4 per cent.

### Internal control

Internal control is a collective term for the internal activities and internal audits carried out in the business to ensure compliance with legislation, rules and regulations, policies and instructions that apply to and are defined for the business. The Sixth AP Fund's work with internal control is largely a reflection of

### Policies published by the Sixth AP Fund

- Ownership policy
- Financial policy
- Risk policy
- Policy for handling insider information
- Ethical standards policy
- Policy for equal opportunities and diversity
- Environmental policy
- Work environment policy
- Procurement policy
- Communications policy

## Core values

In view of its mission and taking into consideration the Sixth AP Fund's role in the private equity market, the organisation is aware that it is dealing with public pension funds and should observe high ethical standards in its internal activities and in those companies and funds in which the Sixth AP Fund is involved.

### The Sixth AP Fund creates value by

- contributing to profitable growth and growth in value through expansion, streamlining or mergers and acquisitions
- being an active and committed owner with an assertive approach and clearly defined return targets

### The Sixth AP Fund demonstrates its professionalism by

- providing skills and systematised processes for developing companies
- providing and developing skills through a network of people with different backgrounds and know-how
- working with considerable personal commitment.

### The Sixth AP Fund demonstrates its long-term approach by

- understanding the companies and funds in which it invests
- working for long-term sustainable solutions from a business, environmental and financial perspective
- focusing on the long-term development of the companies regardless of the duration of its own ownership period.

the activities defined by COSO, the world's most well-known framework for describing a company's internal control (for more information about COSO, see under Definitions). The Board is ultimately responsible for the Sixth AP Fund's internal control.

The Sixth AP Fund has chosen to set up a function to assume responsibility for co-ordinating the work with internal control. This function is organised independently from the functions responsible for taking active business decisions. The function's responsibilities include responsibility for providing information and training in matters relating to policies, instructions, external rules and regulations, etc, for co-ordinating the processes to implement identification and map risks in the business and for planning internal audits with a third party. The Board has decided not to set up an internal audit function to carry out audits of the Sixth AP Fund's existing controls, opting rather to hire external consultants for this work as and when the need arises.

The efficiency of internal control depends partly on having open and transparent risk reporting and on the implementation of clear values in the Sixth AP Fund's operations and affiliated networks.

Reports on internal control activities are made to the Board once a year. Exception reports are also given at every board meeting as part of incident reporting. Daily reports are made to the Sixth AP Fund's executive management team, covering earnings trends, capital allocation and the monitoring of investment guidelines.

### Evaluation of operations

The Board of the Sixth AP Fund is required by law to carry out an annual evaluation of its administration of funds, in other words, a performance review. This evaluation is submitted to the government in connection with the presentation of the annual accounts and audit report. In addition to the Board's own evaluation, the Ministry of Finance carries out an annual evaluation of the Sixth AP Fund's operations on behalf of the government. This evaluation is performed for all the AP Funds with the assistance of external consultants. The evaluation is submitted as a written communication to the Swedish Parliament. In addition to the government's own evaluation, the government appoints external auditors to audit the annual accounts and day-to-day administration.

### Mission, targets and strategy

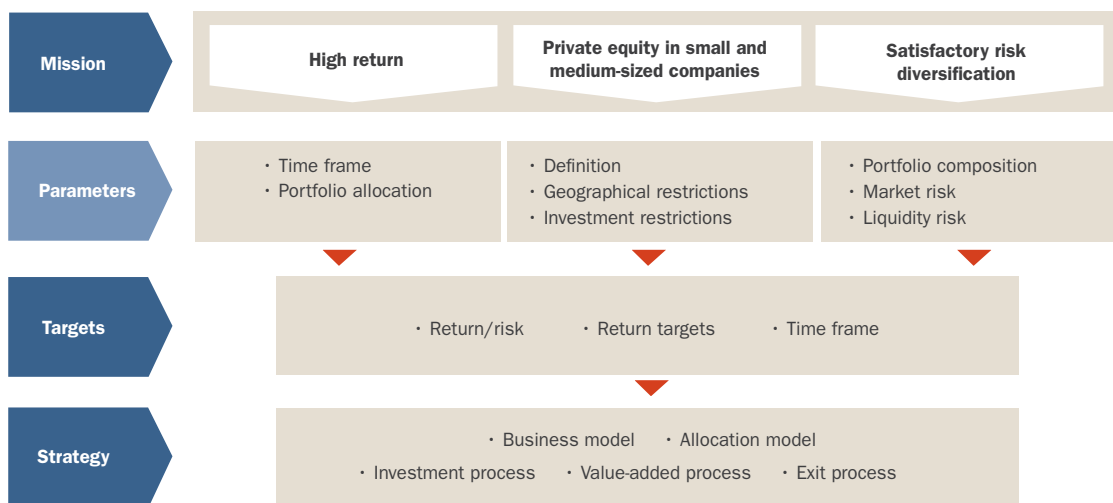


Illustration describing how the mission of the Sixth AP Fund is linked to the targets set and strategies defined. Taking into account the three components of the mission and its underlying parameters, the Sixth AP Fund's Board sets short-term and long-term targets for the business. A clearly defined investment and allocation strategy lays the foundations for investment activities and the Sixth AP Fund's business model.

## Market and investment strategy

### Business model

The Sixth AP Fund's business model has been designed to ensure the efficient implementation of the Sixth AP Fund's market and investment strategy. With effect from 2009, the organisation is divided into seven business areas, each of which has a clearly defined investment strategy. Each business area is led by a steering committee chaired by the Sixth AP Fund's Managing Director. The steering committees scrutinise and decide on potential investment targets that have been identified and all decisions regarding investments are submitted to the Board.

As the Sixth AP Fund is an evergreen fund, sound liquidity management coupled with efficient methods and processes for cash flow forecasts are essential. The liquidity reserve maintained for completing new and follow-on investments in each business area and for covering other capital requirements in existing companies is managed by the Treasury.

### Market strategy

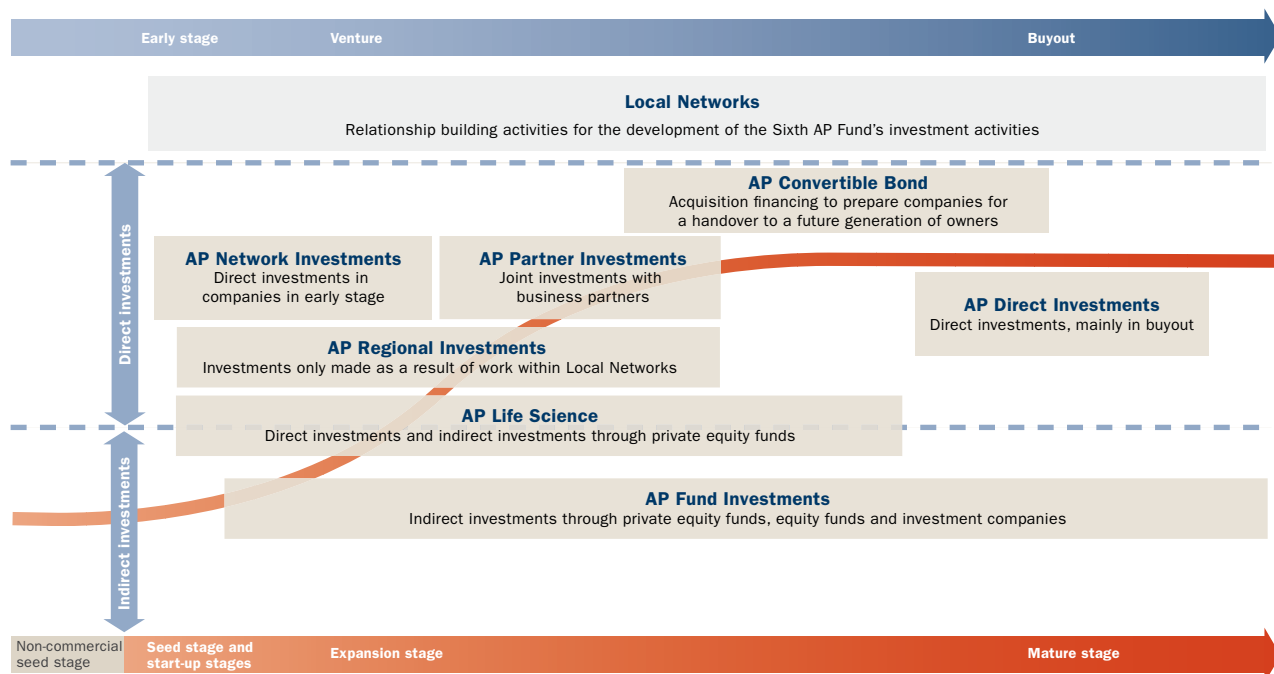
The Sixth AP Fund's mission demands a thorough market analysis and clearly defined investment models. As regards private equity investment for small and medium-sized businesses, the Sixth AP Fund has defined four distinct market segments.

- Early stage companies
- Venture – expansion stage companies
- Buyout – mature stage companies
- Listed small cap

#### *Companies in the early stage*

For the Sixth AP Fund, the early stage refers to the first part of the seed and start-up stages. The seed stage includes a non-commercial element in which investments motivated primarily by economic policy factors are made, e.g. in basic research or in companies that are in need of different forms of financial contribution. The Sixth AP Fund has chosen not to invest in

### The Sixth AP Fund's business model



Funds for investment are allocated on the basis of strategies taking into consideration the level of risk and the management responsibility of internal and external fund managers: direct investments through the Sixth AP Fund's own management teams or joint investments with business partners, or indirect investments through funds and investment companies with external management teams.

the non-commercial, very early stage, on the grounds that investments in this stage are associated with a risk that the Sixth AP Fund regards as far too high in view of its mission. The seed stage also includes a more developed market segment that allows for the commercialisation of research results, business concepts and products. The Sixth AP Fund is evaluating alternative models for investing in this segment. These models are based on advice given to the entrepreneur rather than on the examination and evaluation of a business model or idea. The Sixth AP Fund participates in investments in companies in the early stage through the business areas AP Network Investments and AP Regional Investments.

#### *Venture*

In the venture segment, investors focus on developing businesses in the seed, start-up and expansion stages. The development of the companies demands significant changes and an initial national or Nordic restructuring process.

The segment includes capital allocated by private individuals and institutional investors, both Swedish and international. Investments are made mainly through private equity funds, which are handled by management teams who work in close co-operation with the management of the portfolio companies. In venture, the business strategies may differ from sector to sector. In technology, the focus is often on companies that are keen to take a leap forward through technological development or mergers and acquisitions. In pharmaceuticals and medical technology, the investments may focus on the development of products rather than companies. In the more traditional manufacturing and service sectors, the tendency may lean more towards thorough and long-term initiatives aimed at developing the company.

The Sixth AP Fund is of the view that investments in venture companies involve significant risk, but can yield high returns. Investments in venture take a long time to develop and require significant input in the form of capital and ownership skills. It is therefore important that investors take a long-term approach and have staying power to be able to create good returns.

#### *Buyout*

The buyout segment includes investments made in companies in the late expansion or mature stage. The companies should have an established market position and a positive cash flow. Parties involved in buyout develop the companies by helping them grow in new and existing markets at the same time as

measures are taken to improve the business. This approach helps create larger, more profitable companies.

Buyout is a market segment that has attracted considerable capital in recent years. Most of this capital has come from international institutional investors. In the Nordic region, the buyout segment has historically generated a high average return. The Sixth AP Fund is of the view that the portfolio company risk in the buyout segment is low, whilst the financial risk is relatively high as the portfolio companies are often leveraged prior to a buyout. The assessment is that investments in buyout can deliver high and steady returns over time.

#### *Listed small cap*

Alongside the venture and buyout segments, the Sixth AP Fund has defined an additional segment which invests in listed small cap. Investments are principally made through the following types of player in the segment:

- Listed investment companies, which assume an active ownership role in their portfolio companies. These portfolio companies may be listed or unlisted companies.
- Equity funds, which invest mainly in listed holdings. As part of an increasingly common trend, some fund managers have focused on acquiring larger stakes in companies and combined this with a more active ownership role.

The view is that investments in listed small cap can offer a higher degree of liquidity than that seen in venture and buyout as well as opportunities to create high returns.

#### *Investment strategy*

The role of the Sixth AP Fund is to be an active and committed owner and investor, primarily in the Swedish private equity market. Investments are made with the aim of achieving optimal allocation in the investment portfolio, taking into consideration the potential returns, risk, segment and stage of development of the portfolio companies. The Sixth AP Fund's investment activities, which can be broken down into company investments and investments in funds and investment companies, are managed by an organisation that comprises seven business areas. The liquidity reserve maintained for completing new and follow-on investments and for covering other capital requirements in existing companies is managed by the Sixth AP Fund's Treasury.

Funds for investment are allocated on the basis of two strategies and take into consideration the level of risk and the management responsibility of internal and external fund managers:

- Direct investments through the Sixth AP Fund's own management teams or joint investments with business partners.
- Indirect investments through funds and investment companies with external management teams. For investments through funds that are active in life science, the Sixth AP Fund plays an active role in the development of management teams and portfolio companies.

#### *Direct investments*

Investments are made directly in Swedish small and medium-sized companies, unlisted and listed, through direct investments or through joint investments with business partners.

#### *The Sixth AP Fund*

- is active in the development of portfolio companies, primarily through owner directives, board participation and by acting as an advisor to company management teams
- makes the most of a strong brand and an extensive network of experts in various fields
- is capable of considerable staying power compared with a fund limited in time
- demands low management costs.

#### *Indirect investments*

Investments are made indirectly through private equity funds, equity funds and investment companies with experienced management teams. These invest in Swedish and Nordic small and medium-sized companies in the market segments venture, buyout and listed small cap.

#### *The Sixth AP Fund*

- chooses experienced management teams who are judged to be capable of generating sustained high returns
- acts as an active investor when evaluating, monitoring and controlling the funds
- considers each fund on its own merits when determining an appropriate degree of influence and participation in the decision-making process
- seeks to strike a balance between investors and management teams in its distribution of returns
- invests in private equity funds in life science, an area in which the Sixth AP Fund is able to provide specialist knowledge and contribute by playing an active role in the development of management teams and portfolio companies.

## Organisation

The Sixth AP Fund's investment activities, which can be broken down into company investments and investments in funds and investment companies, are managed by an organisation that comprises seven business areas. Each business area has a clearly defined investment strategy.

The investment activities are supported by administrative functions such as Legal Affairs, Finance & Accounting, Risk Management, Personnel Administration and IT.

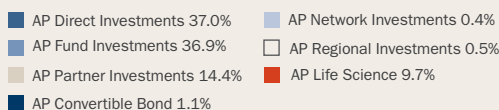
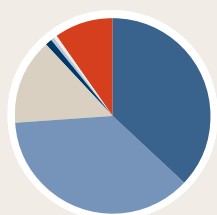
### **Treasury**

The liquidity reserve maintained for completing new and follow-on investments in each business area and for covering other capital requirements in existing companies is managed by the Treasury. Investments may be made in shares or interest-bearing assets. The Treasury also has the task of managing any financial risks that arise in the business. The Treasury aims to exceed the return target for the Sixth AP Fund's liquidity reserve by adopting a proactive risk strategy.

## Investment organisation

Investment activities are organised in seven business areas, each with its own distinct investment strategy and methods for exercising active ownership.

Capital invested by Business Area 2008



See [www.apfond6.se](http://www.apfond6.se) for more information.



### AP Network Investments

AP Network Investments offers growth capital and skills support to companies which have taken the first steps towards development and which are at a mature enough stage to launch their products/services on the market.

**Investment strategy:** Investments are made regardless of industry in companies with a strong entrepreneurial spirit and a business case with potential. The company must have started selling its products or services and should need no more than SEK 10 million in investment capital. The entrepreneur and business case are evaluated and when an investment is made, an owner directive is drafted with milestones for the company's development.

**Active ownership:** The company must have a local mentor or board member who has been approved by the Sixth AP Fund. AP Network Investments plays an active role in every investment, through shareholder agreements, board representation and participation in annual general meetings. Occasionally, staff appointments are made to ensure that the company has the requisite skills and conditions to achieve the desired development.

### AP Direct Investments

AP Direct Investments makes investments in well-established businesses in the goods and services sector, where financial and structural changes create conditions conducive to growth. Investments are also made in structures where there is a need for a strategic financial partner.

**Investment strategy:** Business opportunities are generated by internal analyses and via a broad network. When making investments, various criteria are taken into consideration, such as the nature of the industry and the development opportunities it offers, the company's position and standing in its industry and the ownership structure and management. In all these investments, AP Direct Investments has a long-term ownership perspective that creates the prerequisites for business development and value creation. The commitment in unlisted companies is based on an alignment of interests, with an owner directive providing the platform for developing the company.

**Active ownership:** Active ownership is determined by the company's current situation and requirements, and the owner's representatives from the Sixth AP Fund take part in the work of the board and monitor the company's development in relation to the terms of the owner directive.

### AP Regional Investments

*(new business area formed in 2008)*

In order to distinguish between the relationship building activities carried out by Local Networks and the investments completed as a result of network initiatives, a new business area has been formed.

**Investment strategy:** Investments are made in areas where specialist knowledge of regional relationships is particularly important, for instance, in regional investment companies at the early stage and growth stage as well as in regional companies which are affected by regional development initiatives. Investments must be made on a strictly commercial basis. This is an absolute requirement. The inflow of new investments comes solely from the Sixth AP Fund's activities with Local Networks.

**Active ownership:** The Sixth AP Fund always takes an active part in the company boards of regional investments, initially through its owner representatives. An owner directive is drafted for each investment and this is regularly evaluated.

## AP Partner Investments

AP Partner Investments creates the prerequisites for making investments, together with a business partner, in companies that need to renew their business model, for example by developing their market strategy, in order to grow. The business partner must be willing and able to share risk, to take an active part in the company's business development and to share views on the terms and values involved.

**Investment strategy:** Most contacts are made through the Sixth AP Fund's own network. An investment is always made together with a business partner and the business partner tends to be the one who presents an investment proposal. The business partner and the company are regarded as a unit. The first stage is to assess the business model and the partner's ability to reach the deal's targets. The investment focus is on companies in the expansion stage with a turnover of SEK 20-500 million.

**Active ownership:** The prerequisites for active governance are created by drafting an owner directive together with the partners and by continuously reporting on the company's development. The business partner is required to invest in the company and as the Sixth AP Fund's representative participate actively in the work of the board and develop the company in line with a mutually agreed owner directive.

## AP Fund Investments

AP Fund Investments invests in funds and investment companies with a focus on unlisted companies in the start-up, expansion and mature stages, as well as small and medium-sized listed companies. The business area is divided into three portfolios: Venture, Buyout and Listed Small Cap.

**Investment strategy:** The Sixth AP Fund develops long-term relations with skilled and experienced management teams who are judged to be capable of generating sustained high returns. The Sixth AP Fund is selective in its choice of management teams and aims for a focused portfolio. There is also the possibility of making co-investments with the funds.

**Active ownership:** The Sixth AP Fund acts as an active investor when evaluating and monitoring the funds. AP Fund Investments considers each fund on its own merits when specifying requirements and determining an appropriate degree of influence.

## AP Convertible Bond

As a complement to traditional sources of capital, the Sixth AP Fund offers the Swedish market an opportunity for long-term acquisition financing: the AP-konvertibel<sup>TM</sup>. The purpose of this convertible bond (the Bond) is to help potential company owners secure a more long-term form of financing and in doing so facilitate the handover of businesses in Sweden to a future generation of owners.

**Investment strategy:** The Bond is being marketed in the Sixth AP Fund's networks and through contacts with banks, audit firms and law firms all over the country. The product has been designed for companies seeking a complement to bank financing when transferring the business to a future generation of owners. It is aimed at mature companies with a steady turnover and positive cash flows. The evaluation process assesses the growth potential of the company and its ability to generate the future cash flows required to manage the acquisition financing. The Bond focuses on investments in excess of SEK 10 million and anticipates that new owners are able to provide a capital base corresponding to a minimum of around 25 per cent of equity.

**Active ownership:** The Sixth AP Fund is entitled to appoint one full board member and one deputy to the company's board to ensure continuous updates on the company's development.

## AP Life Science

AP Life Science invests directly in companies and private equity funds in pharmaceuticals, biotechnology and medical technology, with a focus on Scandinavia.

**Investment strategy:** Investment opportunities mainly arise as the result of an active dialogue with universities, other academic institutions and market players but also come from continuous and thorough analyses. If, after initial meetings, both parties are still interested, there is an analysis of the company's/fund's business case, market position, ownership structure and management. As investments in life science take a long time to develop, a long-term approach is essential.

**Active ownership:** The Sixth AP Fund plays an active role through board representation in funds in which it has a large stake and in directly owned companies. In funds where the ownership interest is smaller, the Sixth AP Fund may have a representative on the investment or follow-up committee.

# Company investments

The Sixth AP Fund invests directly in small and medium-sized companies, unlisted and listed and mainly Swedish, through direct investments or through joint investments with business partners. Investments are made in the market segments early stage, venture and buyout.

## The investment process

Each year, the Sixth AP Fund analyses more than 500 companies – businesses of varying sizes, in different regions and at different stages of development. It is necessary to analyse such a large number of companies to be able to identify targets which fulfil the Sixth AP Fund’s investment criteria and in which the Sixth AP Fund may invest. The investment process differs from company to company; in some cases it may take several years before an investment is made. The proposals for investments come largely from the Sixth AP Fund’s own network, which also includes the growing number of business partners with whom the Sixth AP Fund collaborates. Investments may sometimes be made as a result of a study of a particular industry or region.

Investments are made regardless of industry in small and medium-sized growth companies, mainly Swedish. Each investment is preceded by an extensive analysis of the company, including a financial and, where appropriate, technical due diligence process. Besides the financial and technical

aspects, the company’s legal, sectoral and commercial standing are analysed. Another area covered by a particular section of the analysis concerns the extent of the company’s environmental impact. The result of the due diligence is then used as a basis for the investment decision of the Sixth AP Fund’s Board. The ownership interests in companies can vary, depending on the intentions of the sellers, the size of the participating interest in relation to the stakes of other owners or the size of the stake demanded by the Sixth AP Fund to ensure the best possible development potential for the company.

The Sixth AP Fund applies a risk premium model for all its investments, which is the basis for the required return set at the time of making the investment and against which the investment is monitored during the holding period and when the company is divested. The required return on investments differs depending on the companies’ stage of development, sector and industry. Generally, the earlier the stage of development, the higher the required return. The required return is also higher for fast-growing research-intensive sectors such as technology and biotechnology, compared to mature investment sectors such as property and industry.

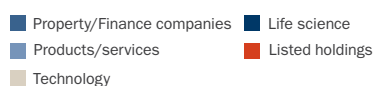
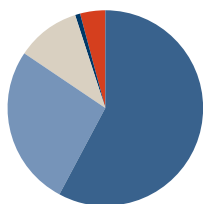
## Exercising active ownership

The Sixth AP Fund has drafted a methodology for improving the performance of holdings during the period of ownership. This methodology rests on two pillars: the owner directive and the business plan.

### *Clear owner directive to determine the strategic direction of the business plan*

When a new investment is made, the Sixth AP Fund, together with the other owners, drafts an owner directive that clarifies the common goals for the investment shared by the Sixth AP Fund and the other owners. The owner directive includes an

## Funds and investment companies by market segment





## ACTIVE OWNERSHIP

### Polarica

Polarica is currently Scandinavia's leading supplier of wild game and berries. The company has reported steady growth during the 2000s, increasing both sales and earnings. Over the years, the company has invested heavily to develop its business operations in Russia and Poland and is now well poised to seek further growth.

The Sixth AP Fund came into contact with Polarica through Local Networks and currently has a 15 per cent stake in the company. The Sixth AP Fund is actively working to secure the company's long-term development by continued expansion and by developing the company, chiefly through active participation in the work of the board.



## ACTIVE OWNERSHIP

### Unfors Holding

Unfors manufactures measuring instruments for the quality assurance and service of diagnostic X-ray equipment and markets several products in this field. The company has a high rate of product development, with several new products due to be launched in 2009. For instance, together with Philips, Unfors plans to launch Unfors Alert, a personal dosimetry system intended for people who are exposed to radiation at the workplace. The meter takes real-time measurements of radiation levels and provides users with instant information about exposure levels.

Through its stake in Unfors, the Sixth AP Fund has strengthened the company's board and management. The Sixth AP Fund has also advised Unfors to help the company increase its rate of expansion in terms of both product development and market penetration, with the result that Unfors is now an international company.

## ACTIVE OWNERSHIP

### Energy Potential

Energy Potential focuses on alternative energy and has partnership holdings in companies that specialise in converting energy from renewable sources such as wind, waves and streaming water. The company is working to commercialise research in these fields and identify technologies that facilitate electricity generation from renewable energy sources.

The Sixth AP Fund has a 14 per cent stake in Energy Potential and the investment was identified through the Local Networks. The Sixth AP Fund works actively with the company's management and board and also has representation on all the portfolio company boards.

Through this investment, the Sixth AP Fund, supported by a combination of Swedish traditions in the power industry, innovation, entrepreneurial spirit and capital, is helping improve the chances of being able to produce electricity from renewable sources.



analysis of critical success factors for the selected strategy, type of buyer considered and expected value, as well as an exit strategy and date. The directive should also specify those resources which the Sixth AP Fund is required to provide in terms of know-how and human resources. This could involve boosting the resources and level of expertise of the marketing and accounting function, the company's executive management or the board.

The owner directive provides the platform for the mission assigned by the owners to the company's board. The board, together with company management, is then responsible for drafting a business plan that is formulated in such a way that the Sixth AP Fund's targets for the company can be met. During this process, it is important that the board focuses on strategic issues and pursues these actively in its work, as this is a condition for being able to decide upon measures to drive the value of the shares in the portfolio companies.

As the owner directive defines those factors which create value when a company is sold, the method has also resulted in better monitoring and control. The most important effect of the work with owner directives, however, is that the focus is being shifted from short-term profit growth to long-term value creation. The Sixth AP Fund's aim is to create healthy, competitive companies that future owners will be able to develop further. This is also important for creating trust among those who divest their companies to the Sixth AP Fund, the staff in the companies and among those who acquire companies from the Sixth AP Fund.

#### *The Sixth AP Fund — more than money*

Companies have different business models and different time perspectives in their development. This demands owners who are both patient and assertive. The Sixth AP Fund has a long and varied experience as an active owner. Throughout the holding period, from acquisition to exit, the aim is to exercise active ownership in a responsible manner. The Sixth AP Fund's contribution is more than money, it also provides business development support and networks, as well as financial and strategic know-how. The extent of its commitment varies. This often has nothing to do with the size of the business; a smaller company may well be allocated the same resources as a larger company.

The development of companies is about the interaction between management, board and owners. The Sixth AP Fund plays an active role in the company's development process and serves as a sounding board for the company's management and by applying the methodology of an owner directive and business plan, the owners, board and management can work together towards the same goals. This ensures that the roles are clearly defined and creates a common language.

The Sixth AP Fund works in investment teams with an appointed owner representative during the holding period. Companies may have the same investment team from acquisition to exit. Companies may also need to change investment teams as they grow and need another type of expertise and governance from within the Sixth AP Fund. The Sixth AP Fund always has representation on the companies' boards,



## ACTIVE OWNERSHIP Norrporten

Norrporten is a property company that acquires, develops and manages centrally located commercial properties of a high standard. Norrporten currently owns and manages 138 properties in locations along the E4 corridor. The company has business operations in Luleå, Umeå, Sundsvall, Gävle, Uppsala, Örebro, Linköping, Jönköping, Växjö, Helsingborg, Copenhagen and Hamburg. The properties have an overall surface area of 1.1 million sq.m., a rental value of

SEK 1.5 billion and a total property value of SEK 17 billion.

The Sixth AP Fund first invested in Norrporten in 2000. The company is now the Sixth AP Fund's largest holding, having produced high returns every year throughout the investment period. Much of the Sixth AP Fund's input has involved taking advantage of Norrporten's strong owner base to draft and implement a long-term development plan for the company. The Sixth AP Fund also has representation on Norrporten's board.

often in a chairing role. The board representative may be the appointed representative from the investment team or someone from the Sixth AP Fund's networks. In the case of joint investments with business partners, it is always the business partner who takes a seat on the company's board.

To ensure a more efficient progress in the development of the companies, the Sixth AP Fund works with networks comprising different types of expertise. These may be strategic networks consisting of board members and experienced executives suited to senior positions in a company or external networks consisting of consultants who can contribute with capital rationing expertise.

### The exit process

An exit must be handled responsibly and take the company's long-term development into consideration. The Sixth AP Fund's direct ownership of companies is not limited in time in the same way as it would be in a fund. This means it is in a better position to dictate the terms of an exit at a suitable time.

In 2008, there were only a few exits. Many of the companies in the portfolio at present are at the expansion stage and thus need to be developed further before an exit can be considered. Some of the largest holdings, such as Volvofinans Bank and Norrporten, are strategic holdings that will yield long-term continuous returns for the Sixth AP Fund. These investments are also a natural part of the Sixth AP Fund's risk diversification.

### Portfolio valuation

At every financial year-end, the Sixth AP Fund assesses the market value of all its directly owned holdings and applies EVCA principles as the basis for their valuation. This generally means that holdings are reported at their fair value while taking into consideration principles of caution and consistency in the valuations. This means that more recent holdings should be valued according to the acquisition cost, unless there has been a new round of financing or partial sale, in which a substantial investment has been made by a third party. In such cases, the valuation should be based on the price fixed for the transaction. In those cases where there is deemed to have been a permanent and substantial reduction in the value of the investment, the valuation is always revised downwards. The Sixth AP Fund also applies the principle, where appropriate, to value a holding based on the present value of expected future cash flows, if this better reflects fair value. However, caution should always be exercised when making valuations.

For companies which invest in unlisted companies, an exit gives an indication of whether or not an investment has been successful. Only then can the efforts to achieve growth in value become clearly visible.

### Risk analysis

Risks must be analysed continuously, partly by checking the status against the owner directive, business plan, market analyses and environmental analyses, partly by putting into place

## ACTIVE OWNERSHIP KVD Kvarndammen

KVD Kvarndammen's business operations comprise Internet auctions and the valuation of cars and other vehicles and machinery for companies and public authorities. With annual sales in excess of 14,000 vehicles, KVD is Sweden's leading auction company for vehicles. The company has approximately 100 employees and is represented at ten locations in Sweden. The company has its head office in Gothenburg and operates its own auction facilities in

Stockholm, Landskrona, Gothenburg, Strängnäs and Linköping.

In 2007, the Sixth AP Fund acquired 60 per cent of the shares in KVD. The Sixth AP Fund has exercised active ownership in the company in both strategic and operational terms, through the work of the board and the chairman, who, up until the turn of the year 2008/2009 also held the role of chief executive. A new chief executive and managing director was appointed with effect from 2009.



reliable procedures for financial monitoring. Environmental scanning and the practice of monitoring how changes in the market affect a company's position represent an important part of the work carried out by a company's management and board. These activities also provide an important platform for the continuous revisions of the owner directive which should reflect current conditions and the owners' demands regarding the further development of the company.

One area which has increasingly come into focus in recent years is "sustainable business". This essentially means that a company in its operations should actively promote and take into consideration the need for ethical standards, equal opportunities and diversity, human rights and environmental concern. Major companies are required to give an account of their work in this field in a sustainability report and to submit transparent information in documents such as the annual report. It is also important that smaller companies address sustainable business issues, since shortcomings can have a significant negative impact on a company's financial situation and reputation, which could in turn eventually lead to the company losing market share or disappearing altogether. It is important to make it clear that these issues must be addressed continuously.

### Local Networks

The Sixth AP Fund visits various regions to meet local representatives who are able and willing to influence the development of industry in their region. Through such exposure and local initiatives, the Sixth AP Fund is able to reinforce its brand. The objective is to identify good investment opportunities that also have a favourable impact on local growth and employment. Through its long-term activities with Local Networks, the Sixth AP Fund has gained considerable market insight and knowledge, and this helps create deals and develop the Sixth AP Fund's investment model.

#### *Focus on seven regions*

The long-term approach of the Sixth AP Fund is a prerequisite for working with local entrepreneurs and family businesses whose origins date back several generations. The Sixth AP Fund currently focuses on seven regions for relationship building, following up and deals: the counties of Kalmar, Blekinge, Jönköping/Kronoberg, Värmland and Norrbotten, as well as

the regions of Siljan and Skellefteå/Umeå. The regions, which have plenty of entrepreneurs and companies with good growth potential, cover the length and breadth of Sweden, with particular emphasis on those areas outside the country's three major cities.

A series of visits were made to companies in the various regions during the year. Local Networks have also focused on activities in co-operation with county administrative boards and universities/university colleges in order to promote regional enterprise.

#### *Three stages of development*

Since it began in 2002, the Local Networks initiative can be broken down into three stages. The first stage was to continue its efforts to develop contacts in various regions since the Sixth AP Fund decided to stop working with regional branch offices or regional funds. The second stage has been to market the Sixth AP Fund to encourage the inflow of investment proposals, which has also led to the development of a proposal management system and the formation of new business areas. To streamline its work with Local Networks, the third stage was taken in 2008 with the formation of a separate business area, AP Regional Investments, to manage those investments made as a result of the work with Local Networks.

In 2008, AP Regional Investments invested in the regional investment company Ekonord Invest, in the investment company Chalmers Innovation Seed Fund and in the regional company Orsa Grönklitt, which is the result of a study of the tourism industry in Sweden produced by the Sixth AP Fund in co-operation with Göteborg & Co and the University of Gothenburg.

#### *More local investment companies and private incubator operations*

In co-operation with local private investors, the Sixth AP Fund has invested in two small, local investment companies, one in Blekinge County in 2006 and one in Jönköping County in 2007. The aim is to establish a local investment company in every region that the Sixth AP Fund focuses on to promote networking and to actively support the development of local industry. In this way, local companies not only gain access to a local and committed source of capital, they also have access to the Sixth AP Fund's networks and experience of working with private equity investments.

## Events and activities in 2008

### Stable growth for Norrporten

Norrporten continued to pursue its cautious strategy in 2008. In recent years, a significant number of properties have been sold at the same time as several new building projects have been completed. Norrporten's low-leveraged property portfolio, which is valued at SEK 17 billion, had a rental value of SEK 1.5 billion in 2008.

### Volvofinans Bank included in state guarantee programme

In July, the Swedish Financial Supervisory Authority granted Volvofinans' application for a licence to conduct bank operations and in December the company joined the state guarantee programme. These measures facilitated the refinancing of Volvofinans Bank's credit portfolio. Despite poor new car sales in Sweden in 2008, Volvofinans Bank reported a steady financial performance for 2008. Volvofinans Bank's SEK credit, leasing and card portfolio, estimated at SEK 25.4 billion, accounted for the bulk of the company's earnings.

### Sharp fall in Lindab's share price despite good performance

Despite a severe slowdown in the global economy, Lindab continued to report positive growth for its business in 2008. The financial targets, which were revised upwards at the end of 2007, remain unchanged. The company reported a profit of SEK 723 million for 2008. Concern at Lindab's exposure to Eastern Europe and the construction sector caused a sharp fall in the share price during the year. For this reason, the Sixth AP Fund revised the value of its holding in Lindab downwards by SEK 769 million at the turn of the year.

### Meca winds up operations in Denmark

During the year the decision was taken to wind up the unprofitable Danish operation and concentrate resources on Norway and Sweden. In Norway, Meca has increased sales by more than 10 per cent per year in recent years and in Sweden, Meca continues to increase its market share in an industry that is generally on the decline.

### Dawa Däck and Meca develop closer co-operation

The independent tyre wholesaler Dawa Däck is affected by the slowdown in private consumption in Sweden as fewer customers are changing to new tyres. The company continued to run at a loss in 2008 while an action plan adopted earlier in the year was completed as planned.

This programme included developing an even closer co-operation with Meca's workshops, which will be important for the upstream integration of tyres sales in the value chain. These measures will benefit both Dawa Däck and Meca in the long term.

### High level of activity among partner companies

The overall trend for companies owned together with a business partner was strong during the year. Atlas Design Group, Redpill Linpro, C.N.S. Systems, Repairshop Sweden and Xeratech Holding all acquired new businesses in 2008. Sportmanship completed a successful exit of the Swedish agency for Garmin. Next Generation Broadcasting NGB began preparations to strengthen its capital base during the year for continued organic expansion. Solibro com-

pleted a major new share issue internally to finance a new solar cell factory.

Ztorm and LokalMedia Nu i Sverige Holding reported a weaker performance than expected, which led to new owner directives and business plans being drafted to bring about a turnaround. It is estimated that the number of new investments will be fewer in 2009 as attention is focused on the development of existing companies.

### Training for boards of all portfolio companies

In recent years the Sixth AP Fund has noticed a growing need for different types of know-how to be able to further develop small and medium-sized Swedish growth companies. This is particularly true of companies which in coming years will need to be handed over to a new generation of owners.

For this reason, the Sixth AP Fund strives to establish networks which bring together a wide range of skills, for example through the companies Senior Work and Uplevel Partners.

In October 2008, a board training programme was launched under the management of IQQU Styrelseutveckling, a subsidiary of the Sixth AP Fund. To precipitate the further development and growth of companies, clear strategic plans are needed, as well as a strong motivation to achieve the targets set. All boards of the Sixth AP Fund's directly owned portfolio companies will therefore receive training in the strategic aspects of board work. In addition to strategic matters, the programme covers training in corporate governance and legal affairs, and offers intranet access to different decision support and teaching materials relating to board work.

# Investments in funds and investment companies

The Sixth AP Fund invests in funds and investment companies with experienced management teams who invest in Swedish and Nordic small and medium-sized companies in the market segments venture, buyout and listed small cap.

## Long-term investor

The Sixth AP Fund develops long-term relations with experienced management teams who are judged to be capable of generating sustained high returns. The Sixth AP Fund is selective in its choice of management teams and aims for a focused portfolio. There is also the possibility of making co-investments with the funds.

The Sixth AP Fund has been an active investor in funds on the Nordic market since 1997. Investments in funds entail long-term commitments which as a rule have a ten-year horizon. Capital that is committed to funds today will be invested in companies over the coming three to five years. The fund's ownership horizon is usually five to seven years, after which time the companies are divested and the capital is paid back to investors.

The success of a fund depends on the ability of the management teams to create value in the portfolio companies, but investments are also affected by fluctuations in the business cycle. As an investor in funds, it is therefore important to choose the right management teams, but also to commit capi-

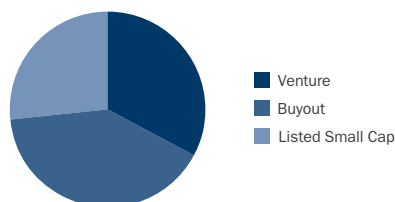
tal continuously to maintain an even rate of investment through different business cycles.

## The investment process

The Sixth AP Fund has developed evaluation models for investments in funds and investment companies. The most important components of the evaluation process are the assessment of investment strategy, management teams, historical returns and fund terms.

Prior to a possible investment, an evaluation of the fund's investment focus is carried out, looking at factors such as sector, the maturity of companies and geographical concentration. Further, the fund's position on the market is benchmarked against that of its competitors. An important aspect of the evaluation is to assess how the fund would fit in to the Sixth AP Fund's overall fund portfolio. The Sixth AP Fund aims for a focused portfolio in terms of the number of management teams and for a balanced risk by aiming for a diversification of the sector, stage of development and size of companies.

Funds and investment companies by market segment



The composition of the management team is evaluated by taking account of the requirement for skills that support the chosen investment strategy. The evaluation includes an assessment of the management team's ability to create qualitative deal flows, the ability to create value during the ownership phase and a knowledge and experience of relevant exit markets. To assess further the capacity of the management team, the returns generated by the management team's previous funds are analysed thoroughly.

A separate part of the Sixth AP Fund's evaluation model concerns fund terms. Terms for the type of funds that the Sixth AP Fund invests in are not standardised in the same way as terms for listed products. The terms are instead formulated in connection with the establishment of the fund and are agreed after negotiations between the investors and the management team. The terms can therefore vary from fund to fund. The purpose of the fund terms is to ensure an alignment of interests for the management team and investors with regard to the activities of the fund.

The Sixth AP Fund applies a risk premium model for all its investments, which is the basis for the required return set at the time of making the investment and against which the investment is monitored during the holding period. The required return on investments differs depending on the investment focus with regard to stage of development, industry and sector. Generally, the earlier the stage of development, the higher the required return. The required return is also higher for fast-growing research-intensive sectors, such as technology and biotechnology, compared to mature investment sectors such as property and industry.

### Exercising active ownership

The Sixth AP Fund acts as an active investor when evaluating and monitoring the funds and considers each fund on its own merits when specifying requirements and determining participation in decisions. The basic premise, however, is that the management team always bears full responsibility for management of the fund.

Special conditions apply to one segment in venture, namely life science. Active ownership is exercised somewhat differently for life science compared to other investments in funds in that the Sixth AP Fund takes part in the work of the board. The Sixth AP Fund is continuously reviewing the need for new

structures and terms for the funds that invest in life science. This applies above all to the time perspective for the funds established at the end of the 1990s. It has become clear that funds that are limited in time are not the right vehicle for investment in life science. The funds have reported weak profitability and have not yet been able to arrange exits for the majority of portfolio companies, even though the duration of the investment period is rapidly approaching. For this reason, the decision was taken in 2008 to convert the Sixth AP Fund's largest fund in the segment, SLS Venture, into an investment company. The new investment company will have a strong owner and a management team that can focus on a long-term approach in the same way as other directly owned holdings in the Sixth AP Fund.

### Portfolio valuation

Valuations of holdings in funds which invest in unlisted companies are based primarily on valuations received at 31 December 2008 from the respective funds. For holdings in respect of which the Sixth AP Fund has not yet received valuations that take into account the performance during the fourth quarter of 2008, an adjustment has been made to the latest valuation received to reflect the change in market conditions. The adjustments have been made on the basis of discussions with each of the funds. As a result of these discussions, the unrealised downward adjustment of the market value is greater than would otherwise have been the case. Listed holdings are valued at the current price at the accounting year-end.

### Risk analysis

The Sixth AP Fund has developed working methods and tools for the continuous monitoring of the funds' development. The portfolio is analysed from a number of different perspectives, such as industry, stage of development, financial risk and technology risk. The purpose of this work is to understand the underlying risks in the portfolio.

The analysis is based on the regular written reports received from the funds. As the Sixth AP Fund's investment managers also have regular meetings with the funds' management teams, they are able to obtain a good picture of the progress of the funds and portfolio companies.

# Fund management report

According to the Swedish Code for Corporate Governance, Swedish listed companies are required to submit a Corporate Governance Report. The Swedish code can be regarded as a boiler plate for determining standard practice for other companies, organisations, public authorities, etc and this fund management report has therefore taken inspiration from the Swedish Code for Corporate Governance while taking into consideration the particular characteristics of the Sixth AP Fund.

Like the other Swedish National Pension Funds, the Sixth AP Fund is a government agency. However, the Swedish National Pension Funds differ considerably from other government agencies. The main difference is that the Swedish National Pension Funds adopt a highly independent position in relation to the government since their activities are regulated by law and the government therefore has no regulatory authority over the funds.

## Composition of the Board

The Board has five members and is appointed by the government, which also appoints the Chairman and Deputy Chairman. The government has decided upon a one-year term of office for board members, which means that the current appointments apply until such time as the Sixth AP Fund's balance sheet and income statement for 2008 have been adopted. In 2008, Eva-Britt Gustafsson was replaced by Katarina G Bonde. All other members were re-elected.

## Board responsibilities

The Board has full responsibility for the business and in those areas where the Board's responsibilities are not regulated in the Sixth Swedish National Pension Fund Act (2000:193), they are regulated in the Rules of Procedure which are set by the Board on an annual basis.

In 2008, the Board held six ordinary board meetings and two extra board meetings. Besides the board members, board meetings are also attended by the Sixth AP Fund's Managing Director and employees who have special expertise or who have been asked to give a presentation.

The most important tasks of the Sixth AP Fund's Board include setting the return target for the business, deciding on the allocation of capital, appointing and evaluating the Managing Director and ensuring that the business has reliable procedures for internal control and monitoring. In addition, the Board annually evaluates the day-to-day running of the business, focusing on the long-term perspective.

## Topical issues in 2008

During the year, the Board has discussed the turbulence on financial markets and the impact this has had on both short-term and long-term return as well as fund capital performance. During the year, the Board decided to allocate funds to an external index management to complement the other management activities. This external management service was the subject of a procurement process during the spring and started in the second quarter.

The Sixth AP Fund's policies and instructions have been analysed and clarified during the year and internal control processes have undergone further development. Part of this work has involved the analysis of legislation and regulations regarding the business which shall or may reasonably be expected to be taken into consideration in the day-to-day management. During the year a vulnerability analysis was carried out in which the IT system, among others, was subjected to testing for the purposes of security and internal control.

## Fees, salaries and incentive scheme

Fees and other remuneration to the members of the Board are decided by the government. The annual remuneration amounts to SEK 100,000 for the Chairman, SEK 75,000 for the Deputy Chairman and SEK 50,000 for other board members.

The Board decides the Managing Director's remuneration and the scope for salary revisions for other staff. The Board also decides whether to adopt an incentive scheme. The performance-based programme, which is limited to the equivalent of two months' salary for the employee, is related to the overall financial performance in relation to the absolute return target. Taking the Sixth AP Fund's performance into consideration, no performance-based remuneration will be paid out in respect of 2008.

## Internal control

The Board is ultimately responsible for the Sixth AP Fund's internal control. Internal control is a collective term for the internal activities and internal audits carried out in the business to ensure compliance with legislation, rules and regulations, policies and instructions that apply to and are defined for the business of the Sixth AP Fund. The Sixth AP Fund's work with internal control is largely a reflection of the activities defined by COSO, the world's most well-known framework for describing a company's internal control (for more information about COSO, see under Definitions).

The Sixth AP Fund has elected to set up a function to assume responsibility for co-ordinating the work with internal control. This function is organised independently from the functions responsible for taking active business decisions. The function's responsibilities include responsibility for providing information and training in matters relating to policies, instructions, external rules and regulations, etc, for co-ordinating the processes to implement identification and map risks in the business and for planning internal audits with a third party. The Board has decided not to set up an internal audit function to carry out audits of existing internal controls, opting rather to hire external consultants for this work as and when the need arises.

The efficiency of internal control depends partly on having open and transparent risk reporting and on the implementation of clear values in the Sixth AP Fund's operations and affiliated networks.

Reports on internal control activities are made to the Board once a year. Exception reports are also given at every board meeting as part of incident reporting. Daily reports are made to the Sixth AP Fund's executive management team, covering earnings trends, capital allocation and the monitoring of investment guidelines.

## Audit

The auditors used by the Sixth AP Fund are appointed by the government. The previous appointment, which was shared by Anders Bäckström of KPMG and Göran Jacobsson of Öhrlings PricewaterhouseCoopers, expired in 2008. Björn

Grundvall of Ernst & Young and Anna Peyron of Ernst & Young were appointed as new auditors and their appointment is for one year.

The auditors' work includes examining the Sixth AP Fund's operating activities, administration, annual accounts and accounting records. They express an opinion on the accounting records and the administration based on their audit. Their mandate also includes verifying that the Sixth AP Fund follows generally accepted accounting and valuation principles and that the accounting records give a true and fair view of the operating activities. In 2008 there was also an audit of the Sixth AP Fund's IT environment, with a focus on processes relating to the business system.

The auditors publish a report based on their audit and also report directly to the Board with a verbal report at least once a year. They also submit written reports on their audit of the annual accounts and administration. In addition, the auditors provide the Ministry of Finance with a verbal report once a year.

## Board evaluation

The Board of the Sixth AP Fund is required by law to carry out an annual evaluation of its administration of funds, in other words, a performance review. This evaluation is submitted to the government in connection with the presentation of the annual accounts and audit report. The evaluation is prepared in a separate report that is published on the Sixth AP Fund's website.

## The government's evaluation

In addition to the Board's own evaluation, the Ministry of Finance carries out an annual evaluation of the Sixth AP Fund's operations on behalf of the government. This evaluation is performed for all the AP Funds with the assistance of external consultants. The evaluation is presented in a communication to the Swedish Parliament and made public when the government adopts the income statement and balance sheet for the 2008 financial year.

For more information,  
see the Sixth AP Fund's website, [www.apfond6.se](http://www.apfond6.se)  
and the government's website, [www.regeringen.se](http://www.regeringen.se).





# Directors' report

The Board of Directors and Managing Director of the Sixth Swedish National Pension Fund (the Sixth AP Fund) herewith present their annual report of the Sixth AP Fund's operations for the 2008 financial year. The income statement, balance sheet, specifications and notes to the accounts following this report constitute an integral part of the annual report.

## A turbulent year

The sharp downturn in the economy and on financial markets has also had an impact on the financial performance of the Sixth AP Fund. The loss reported by the Sixth AP Fund stems above all from a downturn for the listed holdings but also from the downward revaluation of unlisted holdings. At the same time, it is important to point out that the financial performance for the year is a consequence of unrealised downward revaluation and that there is a good chance that this can be recovered before the investments are divested.

The Sixth AP Fund's portfolio of directly owned companies has been affected by economic conditions, but the need for a downward revaluation after valuation has been marginal, as the valuation of the companies has historically speaking been cautious. The businesses are still judged to be stable, but at the same time, it is difficult to assess how long the current economic climate will prevail, or indeed if it will worsen. Attention is now being focused on developing existing portfolio companies and ensuring that the Sixth AP Fund, in its capacity as owner, is capable of providing further capital or financing when necessary, for example for add-on acquisitions.

Holdings in funds assigned with the task of investing in unlisted companies have undergone a downward revaluation as a result of the sharp economic downturn and anticipated lower valuations. Some of the companies have also experienced financial problems as a result of relatively high leverage. Most of the underlying companies in the portfolio of investments in funds are judged to be healthy companies with good potential for continued positive growth. Investments in private equity funds with a focus on mature companies have also generated very good returns in historical terms.

The Sixth AP Fund's investments in listed small and medium-sized companies and listed investment companies assigned with the task of investing in unlisted companies have been hardest hit by the sharp downturn on the listed market.

However, the view is that these holdings are well poised to show strong growth in a positive market climate.

The Sixth AP Fund has a long-term mission that demands a balanced diversification of risk. This means that the fund capital is allocated to different portfolios with differentiated levels of risk. The view is that the current allocation has successfully evened out the growth in the value of the portfolio but also that it has been difficult to withstand the rapid and severe downturn, particular in the listed market. The Sixth AP Fund conducted a very thorough analysis and valuation of both direct holdings and investments through funds at the turn of the year, so the valuations of the portfolio companies at the end of 2008 are judged to be relatively cautious. Given the uncertainty prevailing at the beginning of 2009, this is reassuring.

## Fund capital

The Sixth AP Fund's current business model and investment strategy were adopted in 2003 and during the period 2003–2008 the fund capital has grown from SEK 11.6 billion to SEK 16.4 billion, which corresponds to an average annual growth of 5.9 per cent. The Sixth AP Fund started in 1996 with a fund capital of SEK 10.4 billion, which by the end of 2008 had grown by SEK 6 billion to SEK 16.4 billion. This corresponds to an overall growth in value of around 58 per cent since the Sixth AP Fund's inception and an annual average growth of 3.8 per cent.

The Sixth AP Fund is an evergreen buffer fund, which means that it is not required to make payments or receive funds on an annual basis to balance the cash flows of the public pension system. This means that profits can be reinvested and that any losses must be covered by the fund capital.

At the end of 2008, capital committed, but not yet paid out, by the Sixth AP Fund to investments in funds and directly owned companies, amounted to SEK 5.7 billion (5.7bn).

## Profit/loss

For 2008, the Sixth AP Fund reported a net profit/loss of SEK –3,252 million (2,432m), which corresponds to a return of –16.6 per cent (14.1%). This can be compared to the required return set by the Board for 2008, which was 7.4 per cent.

The Sixth AP Fund's profit/loss is the sum of realised and unrealised changes in the value of the Sixth AP Fund's assets

plus returns in the form of interest and dividends. The realised profit/loss consists of the difference between sales proceeds and book value at the exit of holdings and of any write-downs of acquisition value, where applicable. The costs comprise external management costs and internal costs attributable to investment activities and the Sixth AP Fund's shared costs.

### Management costs

The Sixth AP Fund's costs are divided into external management costs, internal management costs and shared costs.

External management costs consist of management fees paid to fund managers of the Sixth AP Fund's listed holdings.

Internal management costs include the Sixth AP Fund's personnel costs related to investments in funds, directly owned companies and the Treasury's holdings, as well as costs directly attributable to investment activities.

Shared costs include personnel costs for the Managing Director and shared specialist functions, as well as the cost of premises, consultants, IT and general office expenses. As the Sixth AP Fund's operations are not subject to VAT, input VAT cannot be deducted. This is routinely written off as an expense and taken up under the Sixth AP Fund's costs.

The management fees paid to funds which invest in unlisted companies are reported as part of the acquisition cost for each of the respective funds. Capitalised management fees are subject to downward revaluation if necessary when assessing the

market value of the investment at the year-end. At the end of 2008, all capitalised management fees were revised downwards to zero kronor.

The Sixth AP Fund's total management costs for 2008 amounted to SEK 144 million (178m), of which SEK 73 million (112m) were attributable to investment activities and the Treasury and SEK 71 million (66m) to shared costs.

### Organisation and employees

The Sixth AP Fund's operations are divided into investment activities and the Treasury. Investment activities consist of investments made directly in companies and indirect investments made through funds and investment companies.

The investment organisation of the Sixth AP Fund is divided up into seven business areas. The Treasury manages the liquidity reserve maintained to carry out new investments and follow-on investments in each business area. The investment activities and Treasury are supported by administrative functions such as Legal Affairs, Finance & Accounting, Business Control, Personnel Administration and IT.

At the end of the year, the Sixth AP Fund had 32 employees (31). Further personnel details are given in Note 8, along with a description of the Sixth AP Fund's incentive scheme. For more information about the Sixth AP Fund's organisation and employees, please refer to the website, [www.apfond6.se](http://www.apfond6.se).

See [www.apfond6.se](http://www.apfond6.se) for more information.



## Sixth AP Fund's performance 1996-2008

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Return trend (%)</b>	—	8.1	8.4	55.8	-1.3	-8.0	-30.9	10.7	8.7	8.9	13.7	14.1	-16.6
Benchmark index for each year													
1999-2002 Six Return index													
2003-2008 Absolute return requirement	—	—	—	67.4	-11.9	-14.2	-35.7	7.4	6.4	6.1	7.2	9.0	7.4
<b>Fund capital (SEK bn)</b>	10.5	11.3	12.2	18.8	18.4	16.7	11.6	12.8	13.9	15.1	17.2	19.6	16.4
<b>Profit/loss summary (SEKm)</b>													
Profit/loss before costs	124	851	923	6,752	-302	-1,522	-4,953	1,320	1,262	1,373	2,215	2,610	-3,108
External management costs	0	0	0	-2	-4	-10	-4	-14	-31	-7	-20	-33	-17
Internal costs	-4	-35	-63	-78	-122	-148	-150	-153	-121	-125	-131	-145	-127
<b>Profit/loss for the year</b>	<b>120</b>	<b>816</b>	<b>860</b>	<b>6,672</b>	<b>-428</b>	<b>-1,680</b>	<b>-5,107</b>	<b>1,153</b>	<b>1,110</b>	<b>1,241</b>	<b>2,064</b>	<b>2,432</b>	<b>-3,252</b>

## Investment activities in 2008

Investment activities are divided up into seven business areas.

### AP Direct Investments

The business area's market-valued capital amounted to SEK 5.9 billion (6.5bn) at the end of 2008 and the profit/loss for the year before costs was SEK -653 million (1,156m).

The sharp downturn on stock markets has also had an impact on AP Direct Investments due to the fall in Lindab's share price – the downward revaluation of Lindab led to a profit/loss of SEK -769 million. Despite a severe slowdown in the economy, Lindab continued to report positive growth for its business in 2008.

Norrporten and Volvofinans Bank provide a strong platform, both as businesses that generate immediate returns and in view of the need for balanced risk in the Sixth AP Fund's portfolio.

### AP Partner Investments

The business area's market-valued capital amounted to SEK 2.3 billion (1.5bn) at the end of 2008 and the profit/loss for the year before costs was SEK 0 million (195m). The profit/loss includes an upward valuation of the holding in KVD Kvarndammen, which in 2008 showed very positive growth and a good earnings trend.

The investments in the portfolio are of a long-term nature and most of them are in the development stage with good growth opportunities. Attention is therefore being focused on identifying investment opportunities to complement the existing portfolio companies.

### AP Convertible Bond

The AP Convertible Bond business area manages those investments made by the Sixth AP Fund using the AP-konvertibel™. The purpose of this convertible bond (the Bond), which is a complement to bank financing, is to make it possible for potential owners to create a more long-term form of financing and amortisation and in doing so to facilitate changes in a company's ownership structure, for example in connection with the handover to a new generation of owners. The Bond is structured as a convertible bond, which means that there is a conversion right to the shares in the company as collateral. Interest in the product has grown during the year and the inflow of investment proposals has been considerable. However, as a result of the difficult economic conditions, considerable caution has been exercised with regard to new investments. In 2008, one new investment was made and one outstanding AP Convertible Bond was prematurely redeemed.

The capital invested through the Bond amounted to SEK 178 million (178m) and the profit/loss for the year before costs amounted to SEK 19 million (5m).

### AP Network Investments

This business area makes investments in companies with a turnover of up to around SEK 20 million and the amount invested is up to around SEK 10 million. The Sixth AP Fund participates as an active owner and the investments are evaluated by and made together with local private partners. The capital invested by the business area amounted to SEK 61 million (26m) at the end of 2008 and the profit/loss for the year before costs was SEK -7 million (-).

## The Sixth AP Fund's profit/loss and fund capital by Business Area

SEKm	Profit/loss before costs		Return before costs (%)		Market-valued capital invested at 31 Dec 2008	Committed capital, not paid out at 31 Dec 2008
	2008	2007	2008	2007		
AP Direct Investments	-653	1,156	-11.2	21.6	5,914	—
AP Partner Investments	0	195	0	24.8	2,310	589
AP Convertible Bond	19	5	10.1	9.4	178	—
AP Network Investments	-7	—	-18.8	—	61	—
AP Regional Investments	-1	—	-1.4	—	76	57
AP Life Science	-639	149	-33.7	8.1	1,544	147
AP Fund Investments	-1,472	1,051	-21.4	12.1	5,904	4,889
Treasury	-201	71	-14.8	3.8	408	—
Central	-154	-17	—	—	-25	—
External management costs	-17	-33				
Internal management costs	-56	-79				
Shared costs	-71	-66				
<b>Total</b>	<b>-3,252</b>	<b>2,432</b>			<b>16,370</b>	<b>5,682</b>

*AP Regional Investments*

This business area was formed at the end of 2008 and makes investments in areas where specialist knowledge of regional relationships is particularly important. Examples of investment targets include regional investment companies which invest in companies in the early stage and growth stage as well as in regional companies which are affected by regional development initiatives. The inflow of new investments comes solely from the Sixth AP Fund's activities with Local Networks. The capital invested by the business area amounted to SEK 76 million at the end of 2008.

*AP Life Science*

This business area makes long-term investments directly in companies and private equity funds in pharmaceuticals, biotechnology and medical technology. Although the level of market activity in the Swedish life science market has been high in recent years, many of the Swedish funds' portfolio companies are still not quite mature enough for an exit.

It has taken – and will continue to take – a long time to develop companies in life science, and this could lead to difficulties in funds which under the terms of the agreement have a limited life. Companies in the Sixth AP Fund's holding in SLS Venture's funds will soon be mature enough for sale to an industrial buyer, although this could be hampered by the current economic climate. As the funds are limited in time and close to a contractual exit, and in view of the fact that it has taken longer to develop companies in the field of life science, SLS Venture was restructured in 2008 by converting the fund holding and transferring the investments to a newly formed investment company, SLS Invest.

The business area's market-valued capital amounted to SEK 2.3 billion (1.5bn) at the end of 2008 and the profit/loss for the year before costs was SEK –639 million (195m).

*AP Fund Investments*

AP Fund Investments invests in funds and investment companies with a focus on unlisted companies in the start-up,

expansion and mature stages, as well as small and medium-sized listed companies. The business area comprises three portfolios: Venture Capital, Buyout and Listed Small Cap. The business area manages a market-valued capital of SEK 5.9 billion (6.8bn) and reported a profit/loss for the year before costs of SEK –1,472 million (1,224m). The financial performance was mainly affected by the decline reported for listed holdings but also by the downward revaluation of unlisted holdings, primarily due to the sharp decline in market value during the fourth quarter. It is important to point out in this context that the financial performance for the year is a consequence of unrealised downward revaluation and that there is a good chance that this can be recovered before the investments are divested.

The Nordic venture market has matured and the management teams are becoming more experienced. Despite this, it still takes a long time to realise the values of portfolios in the venture segment, and this also holds true for Europe as a whole. The Sixth AP Fund maintains a continued cautious valuation of its Venture Capital portfolio, but is of the view that the portfolio offers scope for long-term positive growth in value. However, the current economic downturn will probably delay this growth.

After several years of good returns and a high level of activity in buyout, new challenges have appeared as a result of the current financial crisis, stock market decline and severe economic slowdown. For the funds, these challenges apply particularly for companies which have operations in cyclical sectors and which have been acquired during an economic boom with the assistance of acquisition structures that involve relatively high gearing. Overall, this means that some fund vintages will report poorer returns. At the same time, a recession can create opportunities for long-term owners with a solid financial position, both for developing existing companies and for making new acquisitions at attractive valuation levels.

Listed Small Cap invests in small and medium-sized companies through a variety of external fund managers. Investments are mainly made in small cap funds, microcap funds and investment companies. The value of holdings in the Listed

## AP Fund Investments by portfolio

SEKm	Profit/loss before costs		Return before costs (%)		Market-valued capital invested at 31 Dec 2008
	2008	2007	2008	2007	
Venture Capital	53	186	6.4	25.7	892
Buyout	–511	761	–15.5	28.9	3,048
Listed Small Cap	–1,014	104	–36.5	1.9	1,964
<b>Total profit/loss</b>	<b>–1,472</b>	<b>1,051</b>	<b>–21.4</b>	<b>12.1</b>	<b>5,904</b>

Small Cap segment declined sharply during the second half of the year as the result of the severe stock market decline, although the portfolio as a whole still outperformed the small cap segment on the Stockholm Stock Exchange.

#### *Treasury*

The Treasury manages the liquidity reserve maintained to carry out new investments and follow-on investments in each business area and to cover other capital requirements in existing companies. Investments may be made in shares or interest-bearing assets. The Treasury also has the task of managing any financial risks that arise in the business. The capital managed by the Treasury amounted to approximately SEK 408 million (2,547m) at the end of 2008.

#### Evaluation of business targets

The Board of the Sixth AP Fund is required by law to carry out an annual evaluation of its administration of funds, in other words, a performance review. This evaluation is submitted to the government in connection with the presentation of the annual accounts and audit report. The evaluation is prepared in a separate report that is published on the Sixth AP Fund's website.

#### The government's evaluation

On behalf of the government, the Ministry of Finance carries out an annual evaluation of the Sixth AP Fund's operations. This evaluation is performed for all the AP Funds with the assistance of external consultants. The evaluation is presented in a communication to the Swedish Parliament and made public when the government adopts the income statement and balance sheet for the year, which normally occurs in May of the following year.

The evaluation focuses primarily on the required return set by the Board and looks at how well investment activities have satisfied set requirements. The evaluation also includes analyses to assess the efficiency of the AP Fund system from a general perspective.

The latest document is available on the websites of the government and the Sixth AP Fund.

#### Sustainable business

The Sixth AP Fund strives to put in place clear core values, guidelines and processes to reinforce its efforts to secure healthy investments in companies and funds with regard to sustainable business. This is regarded as an important prerequisite for being able to generate high long-term returns on the pension funds the Sixth AP Fund has been entrusted to manage. The greatest environmental benefit is created by the integration of environmental initiatives as a natural part of investment decisions and by actively supporting those companies the Sixth AP Fund invests in.

In 2008, the work with environmental issues has intensified, an example of this being the Sixth AP Fund's organisation of an environmental seminar for board members and executive management teams of companies in which the Sixth AP Fund is a partner. The seminar was preceded by a mapping of the work already carried out in environment-related issues in a selection of the Sixth AP Fund's companies. The ultimate aim of this process was to develop an action plan to put greater pressure on all of the Sixth AP Fund's companies to actively pursue ethical and environmental activities, as these are an important part of the value creation process and a prerequisite for being able to satisfy the demands for a sustainable business. The action plan includes the formulation of concrete guidelines for both the evaluation process, including any investments, and the work with existing investments.

The Sixth AP Fund has also been working actively with ethical standards and environmental issues internally, looking at areas such as reduced energy consumption and the environmental impact of business travel, waste management and environmental considerations regarding the purchase of products and services.

#### Significant events after the financial year-end

There are no events of material significance to report since the turn of the year.

The turbulence on financial markets and the economic downturn continued into early 2009 and this, coupled with fears of a further worsening of the economic climate, has made the situation very difficult to assess.

For more information,  
[www.apfond6.se](http://www.apfond6.se) or [www.regeringen.se](http://www.regeringen.se)



# Income statement

SEKm	Note	2008	2007
<b>Investment activities</b>			
Realised profit/loss, net	2	287	986
Unrealised profit/loss, net	3	-3,658	1,161
Dividend		224	238
Net interest income/expenses	4	242	214
Other financial income and expenses	5	-203	11
Management costs	6, 8	-73	-112
<b>Total investment activities</b>		<b>-3,181</b>	<b>2,498</b>
<b>Shared costs</b>			
	7, 8		
Personnel costs		-30	-24
Other shared costs		-41	-42
<b>Total shared costs</b>		<b>-71</b>	<b>-66</b>
<b>Profit/loss for the year</b>		<b>-3,252</b>	<b>2,432</b>

# Balance sheet

SEKm	Note	31 Dec 2008	31 Dec 2007
<b>ASSETS</b>			
<b>Investment assets</b>			
Shares and participating interests in listed companies	9	2,943	5,566
Shares and participating interests in unlisted companies	10	13,497	12,685
Other interest-bearing securities	11	92	1,381
<b>Total investment assets</b>		<b>16,532</b>	<b>19,632</b>
<b>Receivables and other assets</b>			
Other current receivables		5	84
Liquid assets		27	24
Prepaid expenses and accrued income	12	82	101
<b>Total receivables and other assets</b>		<b>114</b>	<b>209</b>
<b>Total assets</b>		<b>16,646</b>	<b>19,841</b>
<b>FUND CAPITAL AND LIABILITIES</b>			
<b>Fund capital</b>			
Initial capital		10,366	10,366
Profit brought forward		9,256	6,824
Profit/loss for the year		-3,252	2,432
<b>Total fund capital</b>		<b>16,370</b>	<b>19,622</b>
<b>Current liabilities</b>			
Liabilities to credit institutions		97	—
Accrued expenses		17	28
Other current liabilities	13	162	191
<b>Total current liabilities</b>		<b>276</b>	<b>219</b>
<b>Total fund capital and liabilities</b>		<b>16,646</b>	<b>19,841</b>
<b>Memorandum items</b>			
Contingent liabilities		5	8
Commitments – committed capital, not yet paid out		5,682	5,702

# Notes

All figures are given in SEK million unless otherwise stated.

## Note 1 Accounting principles

The Sixth Swedish National Pension Fund (the Sixth AP Fund) adheres to the regulations set forth in the Sixth Swedish National Pension Fund Act (Lag (2000:193) om Sjätte AP-fonden). This Act came into force on 1 January 2001. The annual report has been prepared in accordance with generally accepted accounting principles.

As a result of the legislation which regulates the Sixth AP Fund, investments are valued according to their fair value in the Sixth AP Fund's accounts.

### Reporting and valuation of unlisted securities

The Sixth AP Fund values all holdings according to their fair value and applies EVCA principles (European Private Equity & Venture Capital Association, [www.evca.eu](http://www.evca.eu)) as the basis for its valuation. This generally means that the holdings must be reported at their fair value while taking into consideration principles of caution and consistency in the valuation. The basic premise is that more recent holdings should be valued according to the acquisition cost, unless there has been a new round of financing or partial sale, in which a substantial investment has been made by a third party. In such cases, the valuation should be based on the price fixed at the time of the transaction. Another exception is where there is deemed to have been a permanent and substantial reduction in the value of the investment. These circumstances require a write-down in value to be reported. This write-down is defined as the realised profit/loss. Even EVCA's valuation guidelines change over time and indicate an adjustment towards market valuation. One of the implications of this is that it becomes possible to realise values at an earlier stage than in the case of a third-party transaction. The Sixth AP Fund has also adopted this approach by making it possible, where appropriate, to value a holding based on the present value of expected future cash flows, if this better reflects fair value. However, caution should always be exercised when making valuations.

Valuations of holdings in funds which invest in unlisted companies are based primarily on valuations received at 31 December 2008 from the respective funds. For holdings in respect of which the Sixth AP Fund has not yet received valuations that take into account the performance during the fourth quarter of 2008, an adjustment has been made to the latest valuation received to reflect the change in market conditions.

Purchases and sales of financial instruments are reported on the trade date.

Convertible loans are stated under the item Shares and participating interests, unlisted companies.

Premiums paid in respect of positions in unlisted derivative instruments have been recognised in the balance sheet. These premiums are reported together with the underlying value of the asset.

Changes in values of unlisted securities, realised and unrealised, are reported in the income statement and included in the profit/loss for the year.

The realised profit consists partly of the difference between sales proceeds and book value at the disposal of holdings, plus any previous write-downs of book value, where applicable. As a rule, write-downs are preceded by a depreciation that is defined as the unrealised profit/loss. This means that there will be a transfer of the depreciation between unrealised and realised profits. This transfer has no impact on the total profit/loss.

The acquisition value of a fund refers to all outgoing payments made, excluding external management costs, for remaining portfolio companies.

### Reporting and valuation of listed securities

Those assets in which capital has been invested are reported according to their fair value in the annual report.

The fair value is based on the closing prices listed on the last trade date of the year. Transactions concerning calls, warrants, forwards and swaps are reported in the accounts on the day when the material risks and rights are transferred between parties, i.e. the day the deal is completed. This principle applies to transactions on the money and bond markets and on the equity market.

The acquisition value of shares and other securities includes commissions and other direct costs incurred in relation to the purchase.

When calculating capital gains and losses, the average value method has been applied.

Interest-bearing securities are reported at their fair value with reference to allocation over time of premiums and discounts over the remaining life of the security.

Valuation is primarily made according to the final price paid on the last trading day of the year.

If, in certain conditions on a certain market, it is considered that the final rate (price paid) is not representative, then a different rate may be used for calculating the fair value.

Positions in derivative instruments are valued at their fair value and reported under the same balance sheet item as each of the respective instrument's underlying class of asset.

Changes in value, realised and unrealised, are reported in the income statement and included in the profit/loss for the year.

The capital gain/loss refers to the difference between sales proceeds and acquisition cost. The capital gain/loss is the result that arises when investment assets are sold.

### Management costs

The Sixth AP Fund's management costs are divided into external and internal management costs and shared costs. External management costs relating to management fees for listed holdings are reported as continuous expenses in the income statement. External management costs relating to management fees for unlisted holdings in funds, among other things, are reported as an acquisition cost together with the investment. The value of the acquisition cost reported is assessed in connection with the valuation at fair value.

Internal management costs, which primarily refer to costs for the Sixth AP Fund's own personnel working in investment activities, are written off as an expense together with shared costs, which primarily refer to personnel costs for the Managing Director and shared specialist functions as well as the costs of premises, IT and general office expenses.

Internal management costs and external management costs are reported in a separate note. Performance-based remuneration is not included in external management costs. It does, however, reduce the capital gain/loss in respect of the asset managed.

### Other accounting principles

No consolidated accounts have been prepared. Shares and participating interests in subsidiaries are valued at their fair value.

Receivables are taken up in the accounts at the amount at which they are expected to be received. Purchases of new equipment are written off as an expense.

Realised and unrealised profit/loss is reported as a net amount in the income statement. Gross values are reported in a separate note.

The Sixth AP Fund is exempt from income tax on its investments in Sweden and its operations are not subject to VAT. For this reason, input VAT cannot be deducted.

The fund capital consists of initial capital and retained earnings. The initial capital comprises a transfer from the former 1st–3rd Boards and SEK 366 million remaining from the Winding-up Board for Fund 92–94. The Sixth AP Fund is not under any obligations regarding payments to or from the Swedish Social Insurance Agency.

#### Memorandum items

When investing in a private equity fund, a contractual commitment is made to invest a certain amount of capital. The capital is invested over time and payment made in line with the investments. The difference between committed capital and capital paid out, with the addition of possible reinvestment sums, is reported as a commitment under Memorandum items.

#### Amendment to accounting principles

External management costs relating to management fees for unlisted holdings have previously been reported as management costs in the income statement. In this respect, the Sixth AP Fund has adopted a

more cautious view compared to the other AP Funds, which has meant that it has been difficult to compare the costs of the different AP Funds and that the Sixth AP Fund has incorrectly appeared as more of a cost driver than other players.

To increase the level of comparability, management fees for unlisted holdings will therefore be reported as an acquisition cost for the respective funds with effect from 2008, which is in line with the principles adopted by the other AP Funds. However, at the end of the year, all capitalised management costs were revised downwards to zero kronor, which means that the new accounting principle has not had any impact, positive or negative, on the net profit/loss. Revised valuations downwards of capitalised costs are included in the unrealised profit/loss.

The amended accounting principle has been applied retroactively, which means that the management costs for the years being compared have been reduced and the corresponding item has been reported in the unrealised profit/loss. This has had no impact on the profit/loss and has not given rise to any adjustment of the opening balance.

#### Note 2 Realised profit/loss, net

	2008	2007
<b>Unlisted holdings</b>		
Income from divestments	1,157	1,481
Capital invested	-839	-615
Reversal of changes in value booked previously (excluding write-downs)	-100	-5
Write-downs for the year	-23	-5
<b>Total, unlisted holdings</b>	<b>195</b>	<b>856</b>
<b>Listed holdings</b>		
Capital gain, net		
Shares and participating interests	—	0
Bonds and other interest-bearing securities	3	2
Derivatives	143	135
	<b>146</b>	<b>137</b>
<i>Capital loss, net</i>		
Shares and participating interests	-54	-7
	<b>-54</b>	<b>-7</b>
<b>Total, listed holdings</b>	<b>92</b>	<b>130</b>
<b>Total realised profit/loss</b>	<b>287</b>	<b>986</b>

#### Note 3 Unrealised profit/loss, net

	2008	2007
<b>Unlisted holdings</b>		
Unrealised changes in value for the year	-1,614	903
Reversal of changes in value booked previously on holdings realised during the year	100	5
	<b>-1,514</b>	<b>908</b>
<b>Listed holdings</b>		
Shares and participating interests	-2,134	252
Bonds and other securities	-10	1
	<b>-2,144</b>	<b>253</b>
<b>Total unrealised profit/loss</b>	<b>-3,658</b>	<b>1,161</b>

#### Note 4 Net interest income/expenses

	2008	2007
<b>Interest income</b>		
Convertible loans	207	191
Other interest income	40	40
	<b>247</b>	<b>231</b>
<b>Interest expenses</b>		
Other interest expenses	-5	-17
	<b>-5</b>	<b>-17</b>
<b>Net interest income/expenses</b>	<b>242</b>	<b>214</b>

#### Note 5 Other financial income and expenses

	2008	2007
Share in profits internal companies	15	8
Exchange rate differences	-218	3
<b>Total</b>	<b>-203</b>	<b>11</b>

#### Not 6 Management costs

	2008	2007
<b>External management costs</b>		
- Unlisted holdings	—	3
- Listed holdings	17	30
<b>Internal management costs</b>		
- Personnel costs	31	44
- Other costs	25	35
<b>Total</b>	<b>73</b>	<b>112</b>

External management costs do not include performance-based costs. Performance-based costs for the year amounted to SEK 0 (5.2m). Input VAT of SEK 4.7 million (5.2m) is reported under Other costs.

**Note 7** Shared costs

	2008	2007
Personnel costs	30	24
Property-related costs	6	4
IT costs	7	7
Services bought	14	17
Other costs	14	14
<b>Total</b>	<b>71</b>	<b>66</b>

Shared personnel costs include the costs related to the Managing Director and business support organisation. Input VAT of SEK 4.7 million (5.2m) is reported under Other costs.

Services bought include remuneration to audit firms, as follows:

	2008	2007
<b>Audit assignments</b>		
Ernst & Young	0.9	—
KPMG Bohlins AB	1.2	1.3
Öhrlings PricewaterhouseCoopers AB	0.2	0.3
<b>Total</b>	<b>2.3</b>	<b>1.6</b>

**Andra uppdrag**

	2008	2007
Ernst & Young	2.0	—
KPMG Bohlins AB	0.1	1.3
Öhrlings PricewaterhouseCoopers AB	0.1	0.6
<b>Total</b>	<b>2.2</b>	<b>1.9</b>
<b>Total</b>	<b>4.5</b>	<b>3.5</b>

**Note 8** Personnel

		2008	2007
Average number of employees	Men	14.4	14.7
	Women	14.2	13.1
		<b>28.6</b>	<b>27.8</b>

		2008	2007
Number of employees as at 31 December 2008	Men	16	15
	Women	16	16
		<b>32</b>	<b>31</b>

**Salaries and fees**

	2008	2007
Chairman of the Board	0.1	0.1
Board, excluding Chairman	0.2	0.2
Managing Director	2.9	2.8
Senior management team, excl Managing Director	10.6	10.2
Other employees	20.6	21.7
	<b>34.4</b>	<b>35.0</b>

**Incentive scheme**

	2008	2007
Senior management team, excl Managing Director	—	1.6
Other employees	—	2.8
	—	<b>4.4</b>

**Pension costs**

	2008	2007
Chairman of the Board	—	—
Board, excluding Chairman	—	—
Managing Director	1.8	1.8
Senior management team, excl Managing Director	4.8	5.6
Other employees	5.9	7.7
	<b>12.5</b>	<b>15.1</b>

**Social security expenses, excluding pension costs**

	2008	2007
Chairman of the Board	0.0	0.0
Board, excluding Chairman	0.1	0.1
Managing Director	1.0	0.9
Senior management team, excl Managing Director	3.3	3.3
Other employees	8.0	7.0
	<b>12.4</b>	<b>11.3</b>

**Total social security expenses**

	<b>24.9</b>	<b>26.4</b>
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**Other personnel costs**

	<b>1.8</b>	<b>2.4</b>
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**Total personnel costs**

	<b>61.1</b>	<b>68.2</b>
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**Pension**

The Managing Director's employment contract contains specific provisions regarding retirement benefits and severance pay. The Managing Director shall be entitled to a pension at the age of 62 and annual premium payments shall be made corresponding to 42.5 per cent of the gross salary up to the age of 62.

Employees holding a position in the senior management team have pension agreements that have been negotiated individually with pension provisions that represent a proportion of the fixed salary during the period of employment. The Sixth AP Fund has no undertakings regarding future pensions or pension conditions. Remuneration from incentive schemes does not count as pensionable income.

**Severance pay**

Should the Sixth AP Fund serve notice to terminate employment, the Managing Director shall be entitled to severance pay corresponding to 18 months' salary in addition to salary during a six-month period of notice. Deductions are made for any other remuneration received by the Managing Director. The average period of notice for members of the senior management team is 12 months.

**Incentive scheme**

With the exception of the Managing Director, all employees of the Sixth AP Fund are included in an incentive scheme. Payments under the incentive scheme, which are limited to the equivalent of two months' salary, are subject to the return target for the entire Sixth AP Fund being exceeded. The net return for 2008 was -16.6 per cent, which means that the absolute return target was not exceeded. Accordingly, no payments were made and the income statement has not been charged with payments triggered by the incentive scheme.

With the exception of the board fee, no further remuneration has been paid to the Board of the Sixth AP Fund.

**Decisions regarding fees and remuneration**

Board fees are set by the government. The Board sets the Managing Director's salary each year and also decides the general development of staff salary levels and any incentive schemes.

**Absence due to illness**

Absence due to illness totalled 29 days for the year (29), which corresponds to around 0.4 per cent of hours worked. To protect the integrity of individuals, these statistics have not been broken down according to age or gender.

## Note 9 Shares and participating interests in listed companies and funds

Share	Number of participating interests	Share of equity, %	Voting rights, %	Market value
BioInvent International	1,268,718	2.3	2.3	19
Lindab	8,798,874	11.1	11.1	427
Ratos B	2,585,492	1.6	0.5	349
SHBINDEK, holding reported on the website				174
Enter Sverige Fokus	310,456			296
Lannebo Micro Cap	607,153			382
Lannebo Småbolag	28,742,611			515
RAM ONE	77,692			67
SEBINHX	100,000,000			94
SEB Micro Cap	4,000,000			311
SEB Sverige Småbolag Chans Risk	4,542,347			233
Simplicity Norden	341,631			76
<b>Total</b>				<b>2,943</b>

Commission paid in 2008 amounted to around SEK 1.0 million (11.2m).

## Note 10 Shares and participating interests in unlisted companies and funds

Company	Org. no.	Registered office	Number of participating interests	Voting rights, %	Share of equity, %
123 Servicecenters Fastighets AB	556660-4327	Gothenburg	1,000	100.0	100.0
Accent Equity Partners AB	556601-2315	Stockholm	1,000	10.0	10.0
AEP 2003 KB	969694-5196	Stockholm			15.8
Andra & Sjätte Fastigheter AB	556694-3022	Gothenburg	2,500	50.0	50.0
AP Fordoninvest AB	556601-9757	Gothenburg	175,275	100.0	100.0
AP Konvertibeln AB	556703-1124	Gothenburg	1,000	100.0	100.0
AP Konvertibeln KB	969715-4061	Gothenburg	100		99.0
AP Partnerinvest AD AB	556740-3414	Gothenburg	97,000	97.0	100.0
AP Partnerinvest Auktion AB	556751-9607	Gothenburg	920	92.0	100.0
AP Partnerinvest Biljett AB	556751-9615	Gothenburg	920	92.0	100.0
AP Partnerinvest Fashion AB	556742-8882	Gothenburg	1,000	100.0	100.0
AP Partnerinvest Miljö AB	556751-9599	Gothenburg	920	92.0	100.0
AP Partnerinvest MIT AB	556754-4431	Gothenburg	960	96.0	100.0
AP Partnerinvest Network AB	556754-4399	Gothenburg	1,000	100.0	100.0
AP Partnerinvest Positionering AB	556739-6857	Gothenburg	930	93.0	100.0
AP Partnerinvest Röd AB	556736-6322	Gothenburg	94,000	94.0	100.0
AP Partnerinvest Sec AB	556754-2583	Gothenburg	90,010	90.0	100.0
AP Partnerinvest Sport AB	556736-6934	Gothenburg	90,001	90.0	100.0
AP Partnerinvest TDS AB	556752-1363	Gothenburg	923	92.3	100.0
AP Partnerinvest XLR AB	556746-6510	Gothenburg	901	90.1	100.0
AP Partnerinvest XLR2 AB	556749-6079	Gothenburg	901	90.1	100.0
AP Riskkapital AB	556711-0407	Gothenburg	1,000	100.0	100.0
Aumar AB	556631-5932	Gothenburg	700	70.0	70.0
Auvimo AB	556587-9565	Gothenburg	1,000	100.0	100.0
Auvimo KB	969621-7729	Gothenburg			100.0
CashCap AB	556533-1930	Stockholm	12,062	12.1	12.1
Chalmers Innovation Seed Fund AB	556759-5003	Gothenburg	206,060	36.4	36.4
Creandum Advisor AB	556644-0300	Stockholm	37,740	34.0	34.0
EkoNord Invest AB	556769-8625	Stockholm	7,143	14.3	14.3
Electric Generation AB	556764-3282	Gothenburg	290,000	29.0	29.0
Energy Potential AB	556614-9000	Uppsala	395,281	3.3	14.0
Financial Industrial (FIND) Consulting AB	556720-6726	Gothenburg	6,600	55.0	55.0
Fornminnet AB	556696-0794	Gothenburg	1,000	100.0	100.0
Fornminnet KB	969712-0468	Gothenburg			99.0

Contd. **Note 10**

Company	Org. no.	Registered office	Number of participating interests	Voting rights, %	Share of equity, %
Fyrfond AB	556591-7027	Gothenburg	1,000	100.0	100.0
Fyrfond KB	969661-3109	Gothenburg			100.0
Gar Förvaltnings AB	556312-2968	Gothenburg	10,000	100.0	100.0
Grönsta Lager AB	556660-5431	Gothenburg	1,000	100.0	100.0
Grönsta Lager KB	969704-9576	Gothenburg			99.0
Healthcare Göteborg AB	556572-2088	Gothenburg	1,000	100.0	100.0
Healthcare Göteborg KB	969654-8396	Gothenburg			100.0
Industrial Equity (I.E.) AB	556599-9702	Gothenburg	1,000	100.0	100.0
Innoventus AB	556602-2728	Uppsala	4,662	33.3	33.3
Innoventus Project AB	556616-8356	Uppsala	176,483	49.0	49.0
IQQU Styrelseutveckling AB	556743-8105	Gothenburg	1,000	100.0	100.0
Iqube Holding AB	556676-0764	Stockholm	226,889	13.2	13.2
Johanneberg Campusbo AB	556658-6730	Gothenburg	800	80.0	80.0
Johanneberg Campusbo KB	969704-9451	Gothenburg			79.2
Jönköping Business Development AB	556693-2561	Jönköping	180,000	32.0	32.0
Krigskassa Blekinge AB	556709-7992	Ronneby	30,000	50.0	50.0
LokalMedia Nu i Sverige Holding AB	556724-9692	Stockholm	4,300	43.0	43.0
Medicon Valley Capital Management AB	556581-4307	Stockholm	2,293	38.2	38.2
MVC Holding AB	556623-1816	Stockholm	66,667	66.7	66.7
NE Advisory AB	556577-4493	Stockholm	18,422	18.4	18.4
NetSys Technology Group Holding AB	556550-2191	Mölnådal	100,000	100.0	100.0
Next Generation Broadcasting NGB AB	556702-6173	Stockholm	88,447	63.4	63.4
Niconovum AB	556590-0791	Helsingborg	2,115,384	16.3	16.3
Nordia Innovation AB	556228-6855	Stockholm	627,293	28.4	28.4
Norstel AB	556672-5346	Norrköping	2,358	3.9	3.9
NS Holding AB	556594-3999	Sundsvall	1,819,884	50.0	50.0
Orsa Grönklitt AB	556098-7462	Orsa	36,364	15.3	15.3
Polarica AB	556167-2535	Haparanda	7,500	15.0	15.0
Prosilient Technologies AB	556639-2022	Stockholm	145,482	51.6	51.6
Repairshop Sweden AB	556680-5429	Varberg	961	49.0	49.0
Scandinavian Life Science Ventures AB	556587-9771	Gothenburg	1,000	100.0	100.0
Seabased AB	556617-6557	Uppsala	150,000	0.6	2.8
Senior Work Sverige AB	556727-0615	Stockholm	400	40.0	40.0
Slottsbacken Fund II 2003 AB	556648-9729	Stockholm	545	49.5	49.5
Slottsbacken Venture Capital AB	556531-2245	Stockholm	1,000	100.0	100.0
SLS Venture Two GP AB	556628-4674	Stockholm	5,434	53.5	53.5
SLS Invest AB	556730-2038	Stockholm	500	100.0	100.0
Solibro AB	556603-1596	Uppsala	610,932	50.6	50.6
Sportex AB	556220-0674	Gothenburg	102,500	100.0	100.0
STT Condigi Holding AB	556540-2889	Malmö	213,500	54.1	54.1
Unfors Holding AB	556701-5747	Gothenburg	75,230	58.4	58.4
UnitedLog Group AB	556680-6914	Stockholm	24,671	52.6	52.6
Uplevel Partners AB	556736-1067	Gothenburg	500	50.0	50.0
Vertical Wind AB	556632-1070	Uppsala	108,100	0.3	2.0
Volvofinans Bank AB	556069-0967	Gothenburg	400,000	40.0	40.0
Xerotech Holding AB	556652-8963	Stockholm	538	35.0	35.0

The total acquisition value of shares and participating interests amounted to SEK 8,306 million (5,867m).

Contd. **Note 10**

Funds	Org. no.	Registered office	Share of equity, %	Acquisition value
Accent Equity 2003 KB	969694-7739	Stockholm	63.1	234
AE Intressenter KB	969724-7873	Järfälla	15.8	142
Amplico I KB	969656-4088	Gothenburg	93.8	93
Amplico Kapital AB	556703-3161	Gothenburg	90.0	36
Baltic Rim Fund			22.8	11
BrainHeart Capital ANX KB	969703-4685	Stockholm	59.4	46
BrainHeart Capital KB	969674-4102	Stockholm	43.4	99
CapMan Buyout IX Fund A L.P.			12.3	0
CapMan Buyout VIII Fund B KB	969705-5342	Stockholm	100.0	545
CapMan Equity Sweden KB	969683-1321	Stockholm	96.5	367
CapMan Technology Fund 2007 B KB	969720-4288	Stockholm	100.0	115
Creandum I Annex Fund AB	556759-5623	Stockholm	49.3	9
Creandum II KB	969708-0274	Stockholm	98.5	62
Creandum KB	969690-4771	Stockholm	49.3	92
EQT II			4.8	0
EQT IV L.P.			2.0	437
EQT V L.P.			2.4	485
EQT Expansion Capital II L.P.			4.2	60
EQT Opportunity L.P.			10.8	168
Femfond KB	969687-5062	Stockholm	100.0	446
Fysikten KB	969712-1029	Stockholm	100.0	661
H & BIIS Sweden KB	969664-6570	Stockholm	50.0	103
HealthCap 1999 KB	969656-1647	Stockholm	10.5	107
HealthCap Annex Fund I-II KB	969690-2049	Stockholm	38.9	98
HealthCap CoInvest KB	969625-6255	Stockholm	24.4	73
HealthCap III Sidefund KB	969699-4830	Stockholm	22.7	47
HealthCap KB	969614-4162	Stockholm	12.1	1
Industrial Development & Investment Equity KB	969640-9631	Stockholm	14.7	0
InnKap 2 Partners KB	969661-4735	Gothenburg	5.4	5
InnKap 2 Partners KB - Additional Investment Pool	969661-4735	Gothenburg	8.4	4
InnovationsKapital Fond I AB	556541-0056	Gothenburg	31.3	0
Innoventus Life Science I KB	969677-8530	Uppsala	32.7	48
Intera Fund I KY			12.0	25
IT Provider Century Annex Fund KB	969728-8109	Stockholm	98.5	30
IT Provider Century Fund KB	969673-0853	Stockholm	98.5	50
IT Provider Fund IV KB	969687-5468	Stockholm	59.1	177
Karolinska Investment Fund KB	969665-3444	Solna	24.0	81
Medicon Valley Capital Two KB	969680-3056	Gothenburg	98.5	142
Nordic Capital III			9.4	0
Nordic Capital VII Beta, L.P.			2.8	122
Nordico II KB	969660-1500	Stockholm	37.1	0
Nordico III KB	969680-3007	Stockholm	99.3	0
Northern Europe Private Equity KB	969670-3405	Stockholm	69.1	237
Norvestor V, L.P.			8.5	50
Scandinavian Life Science Venture Two KB	969680-5291	Stockholm	70.4	359
SG Partners II KB	969724-7337	Stockholm	24.1	82
Slottsbacken Fund Two KB	969660-9875	Stockholm	54.5	39
Slottsbacken Venture Capital KB	969626-1313	Stockholm	99.3	6
Sustainable Technologies Fund I KB	969734-9620	Stockholm	25.8	11
Swedestart II KB	969648-6431	Stockholm	21.1	0
Swedestart Life Science KB	969675-2337	Stockholm	16.3	46
Swedestart Tech KB	969674-7725	Stockholm	20.6	52
V2 Co-investment Alfa KB	969677-6989	Stockholm	50.0	0
Valedo Partners Fund I AB	556709-5434	Stockholm	25.0	69
<b>Total, funds</b>				<b>6,172</b>
<b>Total acquisition value</b>				<b>14,478</b>
<b>TOTAL MARKET VALUE</b>				<b>13,497</b>

**Note 11** Other interest-bearing securities

	2008	2007
<b>Bond funds</b>		
Northern Spirit Fund	25	—
SHB Råntefond	—	551
SEB Penningmarknadsfond	—	551
<b>Total</b>	<b>25</b>	<b>1,102</b>
<b>Övrigt</b>		
FX forwards	-13	1
Day-to-day loans	—	194
Loans to unlisted companies	80	84
<b>Total</b>	<b>67</b>	<b>279</b>
<b>Total</b>	<b>92</b>	<b>1,381</b>

**Note 12** Prepaid expenses and accrued income

	2008	2007
Accrued interest income	24	36
Prepaid management fee	51	52
Other prepaid expenses and income	7	13
<b>Total</b>	<b>82</b>	<b>101</b>

**Note 13** Other current liabilities

	2008	2007
Transactions not settled on the closing day	68	180
Other	94	11
<b>Total</b>	<b>162</b>	<b>191</b>

Gothenburg, 19 February 2009

Lennart Jeansson  
Chairman of the Board

Lars Lundquist  
Deputy chairman

Gunilla Almgren

Olle Larkö

Katarina G Bonde

Erling Gustafsson  
Managing Director

# Audit report

**Org. no. 855104-0721**

We have audited the annual accounts, the accounting records and the administration of the Board of Directors of the Sixth Swedish National Pension Fund for 2008. The annual accounts are presented in the printed version of this document on pages 26–40. These accounts and the administration of the Sixth AP Fund and the application of the Sixth Swedish National Pension Fund Act (2000:193) when preparing the annual accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by

the Board of Directors and significant estimates made by the Board of Directors when preparing the annual accounts as well as evaluating the overall presentation of information in the annual accounts. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Sixth Swedish National Pension Fund Act (2000:193) and give a true and fair picture of the Sixth AP Fund's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts.

The audit has given no reason to qualify our opinion on the annual accounts, nor on the income statement and balance sheet contained therein, the accounting records or inventory of the Sixth AP Fund's assets or any other aspects of its administration.

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

Gothenburg, 19 February 2009

Björn Grundvall  
*Authorised public accountant*  
*Appointed by the Swedish Government*

Anna Peyron  
*Authorised public accountant*  
*Appointed by the Swedish Government*

# Board of Directors



**Lennart Jeansson**

*Chairman of the Board  
b. 1941. Elected in 2004.*

*Other assignments:*

Chairman of Stena AB, Volvo Pensionsstiftelse, BIL Sweden and Haléns Holding AB.

Deputy Chairman of Mähler International AB. Member of the Board of the Confederation of Swedish Enterprise, Volvo Lastvagnar AB, Volvo Construction Equipment AB, Stena Metall AB and Orkla ASA.

Member of the Council for the sale of shares in companies owned in part or in full by the Swedish state.



**Gunilla Almgren**

*b. 1955. Elected in 2001.*

*Other assignments:*

Managing Director of REGAB Reglerarmatur AB.

Chair of the Stock Exchange Society, Företagsakuten i Göteborg, Företagarna Göteborg.

Deputy Chair of the Federation of Private Enterprises in Sweden. Executive Vice President of the European Association of Craft, Small and Medium-sized Enterprises (UEAPME).

Member of the Board of the Swedish Foreign Trade Association, Swedbank in Gothenburg, Almi Företagspartner Väst AB, Svenska Garantiprodukter AB.



**Katarina G Bonde**

*b. 1958. Elected in 2008.*

*Other assignments:*

Chair of Aptilo Networks AB, Propellerhead Software.

Member of the Board of LBI International AB, Orc Software AB, eBuilder AB, the Royal Swedish Opera, the Sweden-America Foundation.

Member of the Council for the sale of shares in companies owned in part or in full by the Swedish state.



**Olle Larkö**

*b. 1952. Elected in 2006.*

*Other assignments:*

Dean and Professor at the Sahlgrenska Academy at the University of Gothenburg.

Member of the Board of the European Academy of Dermatology and Venereology, Chalmers Invest, Sahlgrenska Science Park, the Ministry of Enterprise, Energy and Communications' delegation for collaboration in clinical research.

Scientific Council, MPA



**Lars Lundquist**

*Deputy Chairman  
b. 1948. Elected in 2007.*

*Other assignments:*

Chairman of Intrum Justitia AB, JM AB and ERIKA Försäkringsaktiebolag.

Deputy Chairman of Tradedoubler AB. Member and Treasurer of the Swedish Heart-Lung Foundation.

# Management



**Erling Gustafsson**

*Managing Director*  
*b. 1958.*  
*Joined the Sixth AP Fund in 1997.*  
*Business Administration graduate*  
*Board assignments:*  
 Chairman of ACR Aviation Capacity Resources AB, Svenska Skeppshypotekskassan and United Logistics TSGS AB.  
 Member of the Board of Scandinavian Life Science Venture and Energy Potential AB.  
 No holdings in unlisted companies.



**Mats Augurell**

*Business Area Manager*  
*AP Partner Investments*  
*b. 1958.*  
*Joined the Sixth AP Fund in 2000.*  
*B Sc Business Administration and Economics.*  
*Board assignments:*  
 Member of the Board of Solibro AB, Alektum Inkasso AB, Aumar AB and Svenska Postkods-föreningen.  
 No holdings in unlisted companies.



**Lars Ingelmark**

*Business Area Manager*  
*AP Life Science*  
*b. 1949.*  
*Joined the Sixth AP Fund in 1998.*  
*Medicine graduate, IFL diploma in marketing*  
*Board assignments:*  
 Chairman of Scandinavian Life Science Venture, Gyttop AB and Svensk Våtmarksfond.  
 Member of the Board of BioInvent International AB, Innoventus AB, Karolinska Investment, Niconovum AB and Svenska Jägareförbundet.  
 No holdings in unlisted companies.



**Urmas Kruusval**

*Business Area Manager*  
*AP Direct Investments*  
*b. 1951.*  
*Joined the Sixth AP Fund in 2000.*  
*Business Administration graduate*  
*Board assignments:*  
 Chairman of AB Volvofinans, Sportex AB, MECA Scandinavia AB and DAWA Däck AB.  
 Member of the Board of Borås Bil Förvaltning AB.  
 No holdings in unlisted companies.



**Alexandra Nilsson**

*Business Area Manager*  
*AP Fund Investments*  
*b. 1973.*  
*Joined the Sixth AP Fund in 1998.*  
*Law degree, Diploma programme for financial analysts from the Stockholm School of Economics.*  
*Board assignments: —*  
 No holdings in unlisted companies.



**Adam F Laurén**

*Administrative Manager*  
*b. 1967.*  
*Joined the Sixth AP Fund in 2006.*  
*Business Administration graduate*  
*Board assignments: —*  
 No holdings in unlisted companies.



**Ulf Lindqvist**

*Communications Manager*  
*b. 1963.*  
*Joined the Sixth AP Fund in 2008.*  
*Degree in Journalism*  
*Board assignments: —*  
 No holdings in unlisted companies.

# Definitions

## **Automatic balancing**

See Balance ratio.

## **Balance ratio**

The total assets in the pension system, excluding premium pensions, divided by pension liabilities. Should the pension system's liabilities exceed its assets (implying a balance ratio of less than 1) the pensions can no longer be indexed with growth in average income, as intended. For example, if the balance ratio for a particular year is 0.98 (i.e. assets are 2% lower than liabilities) the pension benefits will be automatically reduced by 2% during that year. When the balance ratio rises back to a value

exceeding 1, the pension benefits will be returned to their original levels. However, no repayment is made for benefits lost in earlier years.

## **Buffer fund**

Consists of the First to Fourth AP Funds and the Sixth AP Fund. The role of the buffer funds is partly to even out temporary variations between pension contributions and pension disbursements, partly to assist in the long-term financing of the pension system.

## **Business area return**

Profit/loss before costs divided by average capital invested.

## **Buyout**

Investment in a company's equity, for example by a leveraged buyout (LBO) or by the acquisition of parts of a company together with the company's management.

## **Committed capital**

The capital committed by the Sixth AP Fund as equity investments in various funds and companies over a set period of time.

## **Compliance**

Adherence to rules and guidelines.

## COSO – a framework for internal control

The Sixth AP Fund's structure for internal control is a reflection of the activities defined by COSO, the world's most well-known framework for describing a company's internal control. The framework provides advice and guidance on how companies can organise effective internal controls and has been developed for use in a wide range of organisations, regardless of size.

According to COSO, the key components of internal control are: control environment, risk assessment, control activities, information and communication and monitoring.

Control environment is a collective term used to describe the factors which "set the tone" for the attitudes towards internal control in the organisation and embraces that environment, in the form of steering documents, legislation, culture, values, leadership styles and assignment of responsibilities, which surrounds the business. The control

environment lays the foundations for the other four components by establishing discipline and structure, what might otherwise be described as good administrative order.

Risk assessment refers to the work to identify risks in advance so that these can be assessed and avoided or controlled in an efficient and business-like manner by implementing the appropriate measures. The identification of risk is about identifying events, both internal and external, which could have an impact on the target fulfilment of the business.

Control activities are about preventing, discovering and correcting error and may include, for example, IT controls, policy documents, authorisation procedures, reconciliation or breakdown of administrative, controlling and executive functions – also known as the segregation of duties.

Information and communication should support the dissemination and availabil-

ity of internal policy documents, guidelines and assignment of responsibilities that underpin the control activities that are to be implemented. Information is also about ensuring that the people concerned receive adequate and relevant information about legislation, rules and regulations, etc. which could have a bearing on their daily work and which support them in their work with control activities.

Monitoring is about monitoring all control activities that have been deemed necessary to ensure that they work in practice. The concept of monitoring also includes ensuring that reports are submitted to the Board regarding internal control activities or any incidents that occur.

See [www.coso.org](http://www.coso.org)  
for more information.



**Corporate Governance**

A term to describe issues relating to the control mechanisms used to manage companies. The relationship between the different company organs (AGM, Board and MD) is at the heart of corporate governance.

**COSO**

Abbreviation for the Committee of Sponsoring Organizations of the Treadway Commission. COSO is a framework for evaluation a company's internal control over its financial reporting.

**Equity investments**

A collective term for investments in a company's equity that applies to both listed and unlisted companies. It is occasionally confused with the concept of private equity, which is the term given to investments in companies that are not listed.

**EVCA**

European Private Equity & Venture Capital Association

**Fair value**

Fair value is defined as the amount at which an asset could be transferred or a liability written off between parties who are independent of one another yet share an interest that the transaction be completed. This normally means that listed assets are valued at their purchase price (market value) and that the fair value of unlisted assets is estimated with the assistance of generally accepted valuation models.

**Fund capital**

The initial capital that was allocated to the Sixth AP Fund at the beginning together with the cumulative gain or loss.

**Fund of funds**

A fund that invests in other funds, which in turn invest in shares and other equity-related instruments.

**Fund strength**

A measure of how many years the buffer funds can meet Sweden's pension needs in the absence of any inflow of pension contributions.

**Investment activities**

A collective term for the capital managed by the Sixth AP Fund's business areas.

**IRR (Internal Rate of Return)**

Describes the return on an investment in the form of an interest rate.

**Life science**

Collective term for the pharmaceuticals, biotechnology and medical technology sectors.

**Management fee**

Fees paid for the management of a fund.

**Market-valued capital**

Listed securities valued at market value at the year-end and unlisted securities valued according to EVCA principles. For more information, see Note 1.

**Operative share %**

Specifies the participating interest in a private equity fund, regardless of its legal structure. Legal ownership is reported in a separate note.

**PME**

Public Market Equivalent (PME) is the internal rate of return that would have been achieved had all disbursements from investment activities been invested in a market index and all contributions to investment activities come from the same market index. In other words, the PME demonstrates what the return would have been if the cash flows had been invested in stock market equities.

**Portfolio company**

Company owned by a private equity fund.

**Private equity**

A collective term for equities that are not listed on an official or public market. The ownership commitment in a private equity investment is often active and limited over a period of time.

**Private equity fund**

A fund which has as its core operations investment in unlisted companies and the realisation of their growth in value.

**Profit/loss**

A standard measure used to describe a company's financial results. The total change in value – both realised and unrealised – of assets, returns in the form of interest and dividends, minus external management fees and internal costs.

**Repo rate**

One of the Riksbank's key interest rates governing the short-term market rate.

**Risk premium**

The compensation that an investor requires from an investment in, for example, shares rather than investing in risk-free assets.

**Structural capital**

The shared knowledge capital of a company or organisation, compiled and documented in the systems of the company/organisation.

**Sustainability report**

A report describing how a company addresses financial, environmental and social issues.

**Total return**

Time-weighted return (TWR) before costs calculated on a daily basis.

**Total return for the Sixth AP Fund for one year**

Calculated as the profit/loss for the year in relation to the fund capital at the beginning of the year.

**Total return for the Sixth AP Fund for a period longer than one year**

Calculated as the average return per year.

**Venture capital**

Investments made at an early stage in a company's development. The capital injected is often used for product or market development.

The Sixth Swedish National Pension Fund (the Sixth AP Fund) manages public pension funds in order to create high long-term returns and take into consideration the need for satisfactory risk diversification. The task is to invest in small and medium-sized growth companies, mainly Swedish, thus contributing to the development of Swedish industry.

The Sixth AP Fund is an independent owner that invests in small and medium-sized companies and selected private equity funds, equity funds and investment companies.

[www.apfond6.se](http://www.apfond6.se)



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