Board of Directors’ evaluation of the Sixth AP Fund’s operations 2018

Contents

Background and summary

In accordance with the Sixth National Pension Fund Act (2000:193), the Board of Directors must, in conjunction with submitting the annual report and audit report to the government, also submit its own evaluation of the Sixth AP Fund's (AP6's) management of fund assets for the financial year. The Board of Directors is required to review AP6's performance in relation to its specific mandate and the goals set for its operations.

The evaluation is based AP6's overall mission to, within the scope of what is beneficial for insurance on earnings-related old age pension, manage the funds it has been entrusted with via investments in the private equity market. Fund assets shall be invested in a way that meets the requirements for a long-term high return with adequate risk diversification.

AP6's performance was strong in 2018 and the following items are a summary of the Board's evaluation:

- Strong performance for the year and a high return on capital employed
- High rate of investment and continued progress in building a well-diversified portfolio
- Consistent implementation of an appropriate strategy
- External management set up for long-term liquidity
- Professional internal control, with continuous development
- Sustainability efforts that set a precedent
- A stable organization with specialist expertise and structural capital

Based on these factors, is the overall conclusion of the Board that AP6 has succeeded well in carrying out its assignment in 2018, and to live up to the high expectations of the stakeholders. AP6 is well prepared to continue delivering a long-term high return, with adequate risk diversification, to the Swedish pension system. ●

Conclusions from the evaluation

STRONG PERFORMANCE FOR THE YEAR AND A HIGH RETURN ON CAPITAL EMPLOYED

AP6's net profit for 2018 was SEK 3,042 (3,470) million. It corresponds to a net return of 9.6 (12.3) %. Return on the capital that was employed in unlisted investments was 16.1 (20.3) %.
The strong performance is primarily a result from Fund Investments, where the profit generated was SEK 2,550 (1,678) million. It corresponds to a return of 25.6 (19.6) %, after deducting external management costs.

Performance of the fund portfolio has been high throughout, but particularly for venture, where the return for the year was an impressive 88.6 %. This resulted primarily from AP6's long-term collaboration with Creandum and the investment in Spotify, which was divested during the year at a multiple of nearly 100 times the amount invested.

For Direct Investments, net profit amounted to SEK 887 (1,771) million, which corresponds to a return of 8.0 (21.1) %. The net profit was generated by high performance of several co-investments. However, a few portfolio companies did not perform well and reported losses. AP6's internal management costs for the year amounted to SEK 93 (86) million. It is on a par with the last five years (2014-2018), during which the average internal management costs have been SEK 95 million. This is also significantly lower than the average for the preceding five years (2009-2013), when the average was SEK 122 million.

External management costs for unlisted investments, which primarily consist of annual fees paid to PE funds, are expensed as incurred and reported in unrealized gain/loss. External management costs for unlisted investments amounted to SEK 376 million for the year, which is an increase of approximately 20 % compared to 2017. In absolute numbers, the increase was expected and it resulted from the continued high rate of investment commitments and further diversification of the portfolio. In relation to total managed assets of these funds, management costs are stable at 1.3 (1.3) %.

PE investments are long-term in nature and they must therefore be evaluated over much longer periods of time than a single year.

Since 2011, AP6 has focused on investments in the buyout sector. The annual return in this segment over the 22 years since AP6 was established is 14.8 %. The corresponding figure for the last 10 years (2009-2018) is 11.9 %.

The level of return that AP6 has generated stands up well against its listed target index and overall performance in the European PE segment. Over the last 5 years, the return on total capital employed is 13.2 %, which is higher than both the listed target index and PE benchmark.

The conclusion from long-term return comparisons thus shows that the buyout segment's performance has been successful. It also shows a strong up-ward trend in AP6's total net return over the last five years resulting from its focused strategy. (A more in-depth return analysis for various time periods and investment segments is provided in Attachment 1).

In summary, the Board of Directors considers that 2018 was a positive year in terms of earnings and it has further strengthened the trend of delivering a long-term high return, with adequate risk diversification.

HIGH RATE OF INVESTMENT AND CONTINUED PROGRESS IN BUILDING A WELL-DIVERSIFIED PORTFOLIO OF HOLDINGS

In 2018, AP6 maintained a high rate of investments. For Fund Investments, 11 new fund commitments were made for SEK 5.3 (4.8) billion, of which, 90 % was buyout and 10 % venture.

Approximately half of these fund commitments were to new high ranked partners, demonstrating that AP6 has access to leading players in the sector. As the portfolio becomes increasingly diversified, more opportunities for making direct investments (i.e. co-investments) will arise with more partners.

The rate of investment for Direct Investments was also high in 2018. In total, SEK 2.4 (2.7) billion was invested, adding 10 new direct holdings to the existing portfolio. The rate of investment is consistent with AP6's plans for employing the excess liquidity that has resulted from prior divestments and realignment of the portfolio.

Investments made during the year have contributed in making the portfolio even more balanced and well-diversified. The fund portfolio consists for more than 30 external PE firms managing funds in which AP6 has invested. Via these funds, AP6 has indirect ownership in approximately 450 portfolio companies. The portfolio of direct investments consists of more than 40 companies in which AP6 has a minority investment made together with other experienced PE firms.

AP6's overall portfolio is well-diversified across many sectors. It also reflects the norm for European private equity. The portfolio was previously over-exposed to real estate, but is now well diversified across sectors. It's spread across geographic regions has also increased in recent years

Compared to previous years, the portfolio is much more international, with a rising share of European companies. It is also now adding some US companies. More than half of the portfolio companies are domiciled in the Nordic region, reflecting the fact that AP6 is a particularly attractive co-investor for direct investments in its home market.

CONSISTENT IMPLEMENTATION OF AN APPROPRIATE STRATEGY

Dedicated implementation of our strategy continues to strengthen and improve AP6 as a specialist in Private Equity. During the year, the Board and management team evaluated and once again confirmed the appropriateness of AP6's investment strategy.

The core of AP6's strategy involves combining investments in external funds with direct minority investments in specific companies. AP6 is selective in its approach and seek collaboration with leading players and investment decisions are based on own analyses and assessments. AP6 seek long-term, close collaboration, where AP6 can exercise active ownership over time

It's a unique, niched strategy, which is appreciated in the market. That has been confirmed via the multitude of interesting investment opportunities (both direct and fund investments) available to AP6, in a highly competitive, international market.

The Board has concluded that AP6 is pursuing an appropriate strategy, which is being implemented consistently and effectively. AP6 is well prepared to continue delivering a long-term high return, with adequate risk diversification, to the Swedish pension system.

EXTERNAL MANAGEMENT SET UP FOR LONG-TERM LIQUIDITY

For quite some time, AP6 has been working to realign the portfolio to its new strategy. Many divestments have been required in this process, which has generated excess liquidity. AP6 is pursuing a long-term plan for employing its liquidity at a high, steady rate of investment over several years.

The aim is to spread the risks and create a portfolio of holdings that is well-diversified and balanced. At the start of 2018, total liquidity amounted to SEK 9.6 billion, which corresponds to 30 percent of AP6's total capital. At year-end, liquidity was reduced as planned to SEK 8.1 billion, which corresponds to 24 % of total capital.

A new management team was also set up during the year, tasked with managing AP6's excess liquidity. External managers have been engaged to invest these assets in liquid funds. With the aim of achieving a satisfactory, risk-adjusted return, 30 % has been invested in widespread, passively managed stock indexes. The remainder is invested in fixed-income funds, with balanced interest-rate and credit risk.

This type of management is both resource-efficient and appropriate for periods when AP6 has excess liquidity.

PROFESSIONAL INTERNAL CONTROL WITH CONTINUAL IMPROVEMENT

Through the work of the Audit Committee, the Board of Directors has a strong focus on ensuring efficient internal control and regulatory compliance. Successful investing activities require clear guidelines, processes and quality controls on management procedures. In 2017, AP6 thoroughly documented the organization's operational and strategic risks. Each risk area was analyzed based on the underlying risk factors and probabilities, as well as the counteracting processes and controls that have been implemented in the operational workflow. In 2018, the analysis was updated.

One of the focus areas during the year has been IT security and AP6 engaged a consultancy firm to conduct a cyber risk assessment. A penetration test was performed on AP6's externally exposed IT environment to identify any critical vulnerabilities. No critical vulnerabilities were detected, and the consultancy firm was unsuccessful in hacking the system to gain access to sensitive information. Nor was it able to log in to secure systems requiring authorization.

Another focus area during the year has been to analyze AP6's liquidity risk, which arises, among other things, because AP6 is a closed fund and thus itself has to secure sufficient liquidity to pair upcoming outflows. Liquidity forecasts and monitoring are a key component of this process. In 2019, efforts will continue to put even more focus on preparedness planning. The new management solution for AP6's long-term liquidity, has required further development of AP6's own processes and controls, with consideration now also given to the interaction with external managers.

The Board of Directors' overall assessment is that AP6 has good internal controls and that the existing risks are in line with what is considered to be acceptable exposure for this type of business.

SUSTAINABILITY EFFORTS THAT SET A PRECEDENT

The Board of Directors believes that sustainability work plays a crucial role in AP6's strategic and operational work and has the ambition of being the leader in the European private equity industry in this respect. For many years already, responsibility for sustainability issues at AP6 has been an integral part of investing activities.

The Board is convinced that high quality sustainability efforts are a prerequisite for delivering a healthy return over the long term. As a Swedish, state-owned pension fund, AP6 can and should be a role model for responsible investments and sustainability.

Each year, AP6's sustainability work is evaluated in accordance with PRI (Principles for Responsible Investments). It provides confirmation that AP6's sustainability efforts are at a high international level. As a signatory of PRI, AP6 is required to, each year, report its efforts in making responsible invest-ments. AP6 is evaluated on its efforts and awarded a score. In the most recent evaluation report issued by PRI, AP6 received the highest possible score (A+) for its strategy and governance

It received an A rating for both indirect investments in private equity funds and for its direct investments involving active ownership in unlisted companies. The Board's target is for AP6 to receive a minimum rating of A for all three categories that are assessed.

In 2018, AP6's two focus areas for sustainability were gender equality & diversity and climate. It included follow-up on the gender equality dialog that was initiated in a seminar with Nordic PE firms in 2016. Almost all of the Nordic PE firms that AP6 collaborates with participated in a seminar together with representatives from AP6's organization and the members of its Sustainability Committee.

In 2017, AP6 engaged in structured dialog with many of its stakeholders. The results of AP6's stakeholder engagement confirm that stakeholders have a high level of confidence in the organization and its pursuits. AP6 was perceived as being professional, efficient and explicit.

Engagement with stakeholders also generated valuable information that AP6's Board used for the materiality analysis. It was adopted in 2017 and both the Board and management feel that it still provides a correct summary of the most important issues that AP6 should address. The conclusions are reflected in the business plan created by management for 2019.

AP6 supports the Task Force on Climate-related Financial Disclosures (TCFD), published in 2017. These are international recommendations on how companies and investors can report on climate-related risks and opportunities. The recommendations contain suggestions on the climate-related information that should be included in an organization's financial reporting as regards governance, strategy, risk management, metrics and targets. AP6 has initiated efforts to report in accordance with TCFD's recommendations.

All in all, the Board considers that AP6's sustainability work is at a high level. At the same time, there is an awareness that this work needs to be constantly developed and strengthened. The Board's Sustainability Committee will therefore continue to set ambitious sustainabilitygoals for the organization and actively pursue improvement.

STABLE ORGANIZATION WITH SPECIALIST EXPERTISE AND STRUCTURAL CAPITAL

Having successfully worked with unlisted investments for many years, AP6 has accumulated a large amount of structural capital and experience in this asset class.

Access to, and continuous development of, specialist expertise and a well-functioning organization are imperative to AP6's long-term success in achieving its mission. The Board's assessment is that AP6 has successfully established a strong position and good reputation in the unlisted market. This has facilitated collaboration opportunities with leading international players and the ability to attract and retain the right talent for running AP6's highly specialized investing activities.

In connection with recruitment processes, the interest is high and further excellence can therefore be added to the organization at the rate required.

Every second year, an external consultancy firm is engaged to evaluate the salary levels and benefits of AP6's employees. The results from 2017 show that AP6's average total remuneration is 23 % below the average in the private sector and it is 2 % below comparable positions in other state-owned companies and authorities (the median is 17 % below and 15 % above, respectively).

The Board's conclusion is that remuneration to AP6 employees is reasonable and in line with the established guidelines.

AP6's return for various time periods

TARGETS AND BENCHMARKS THAT THE BOARD HAS ESTABLISHED FOR AP6

The board has selected "SIX Nordic 200 Cap GI" as the benchmark for AP6's performance. It is a Nordic index that includes the 200 largest companies. A risk premium of 2.5 % is added to cover the illiquid asset class, unlisted companies. The benchmark is used by the Board not only to evaluate performance, but also provide an indication of the return that could have been generated if AP6's capital had been invested in that index. All of AP6's investments, however, are in unlisted assets, which is why the target is supplemented with an unlisted benchmark. It thus indicates how AP6 has performed compared to other PE firms. The benchmark selected, Burgiss Europe All, shows the return for a median fund in PE with a European investment focus during various time periods. This unlisted benchmark also performed strong, growing by 12.6 % during the period. The two reference points (SIX Nordic 200 Cap GI plus risk premium and Burgiss Europe All) for comparing AP6's return should be applied with a long-term perspective, over several business cycles.

OVERALL RETURN ANALYSIS

Net return for the entire fund and investing activities:

AP6's total return for the year was 9.6 %, which exceeded its target of -0.6 %. Total investing activities (i.e. capital employed) generated a return of 16.1 % that was derived from Direct Investments (return of 8.0 %) and Fund Investments (25.6 %). The return of the unlisted benchmark for the year was 13.1 %.

Buyout segment (mature investments):

The performance of investments in the buyout segment, which is the focus of AP6's investment strategy, has exceeded the return target from the start, but is slightly below the target over the last 10 years. It is worth noting that the target over the last 10 years increased by 5.8 % in 2018, explained by the fact that the 2008 downturn in the stock market of -76 % is no longer included in the index. During the last five years and ten years, the segment has performed on a par with the unlisted benchmark. For the last five years, it has also performed on a par with the target.

The return target for 2018 was -0.6 %, which means that the stable return of 11.4 % for this segment exceeds the target by a wide margin. The performance of Fund Investments (return of 15.6 %) was higher than that of Direct Investments (return of 7.8 %). It is worthwhile to note that all PME figures since the start, and over the last 5 years exceed 1.0, which indicates that the segment's return exceeds what could have been generated if the cash flows (in and out) had been invested in the comparison index (SIX Nordic 200 Cap GI), before internal expenses.

Venture segment:

Over the last few years, the return for venture has significantly improved and for 2018, it was an impressive 50.5 %. The return exceeds the target by a wide margin and it is primarily attributable to Fund Investments, which has continued making investments in venture. The high return is largely attributable to AP6's early investment in Creandum, which made a very successful investment in Spotify.

The total return for this segment over the last five years is 19.2 %. The return for venture is thus well above the listed target and unlisted benchmark. Because of the prior strategic direction that was followed for venture, the segment's performance is weak when assessing longer periods of time. This applies in particular to own direct investments. The return here has improved significantly and for the last five years, it is now 11.9 %. It improves the prior weak return.

PERFORMANCE IN 2018

The total return for 2018 was 9.6 %, which is well above the target of -0.6 %, which results from the comparison index (SIX Nordic 200 Cap GI) having fallen by -3.1 %. A risk premium of 2.5 % is added to the established target to cover the illiquid asset class, unlisted companies. The return for both Direct Investments and Fund Investments exceeded the target, generating returns of 8.0 % and 25.6 %, respectively.

Fund Investments generated a strong return which is primarily attributable to venture, where the return was an impressive 88.6 %. Note, however, that the market value for fund investments' venture portfolio represented just 12 % of capital employed at year-end. It means that a good result has a large impact on the return figures for the segment. For buyout, the return was 11.4 % and for this segment, the funds delivered a healthy return of 15.6 %.

The conversion of the investment portfolio has created a temporary excess liquidity that has had a negative impact on the total net return. However, the return on capital employed (i.e. not including excess liquidity) was 16.1 %, which is well above the target and benchmark.

For investing activities, the PME was 1.15, which means that results were 15 % higher than what would have been obtained if the organization's actual cash flows had been invested in the comparison index, before internal expenses.

5-YEAR PERFORMANCE (2014-2018)

Overall, the average annual return for AP6 over the last five years was 9.4 %. It is lower than the return target of 12.0 % for the period. During the last year, we see a clear change in the trend, with the target falling from 18.1 % to 12.0 %. The return for investing activities, which excludes liquidity, was 13.2 %, thereby exceeding the target. PME over 1.0 for investing activities indicates a higher return than what would have been achieved if the organization's cash flows had been invested in the comparison index, prior to expenses. For 2018, the PME for investing activities was 1.08.

Investments in the buyout segment generated a return of 12.2 %, which is in line with the target and unlisted benchmark. In this segment, Fund In-vestments (return of 13.3 %) had a stronger performance than Direct Investments (return of 11.4 %). The PME for the buyout segment was 1.06.

There was also strong performance during the period for venture investments that were made via funds, with a return of 23.7 %. Direct investments in the venture segment demonstrated a clear recovery, with a return of 11.9 %. The PME for venture was 1.24.

Summary return analysis

Total

		*IRR Direct Investments & Fund Investments			PME** Direct & Fund Investments			Total for AP6	Return target	PE benchmark***
Period	Year	Total	Mature	Venture	Total	Mature	Venture	Total	Nordic 200	Burgiss Europa
From start (22 years)	1997–2018	7.7%	14.8%	-2.5%	0.98	1.22	0.63	5.6%	11.9%	N/A
10 years	2009–2018	8.6%	11.9%	0.3%	0.87	0.97	0.63	7.8%	15.5%	8.7%
5 years	2014–2018	13.2%	12.2%	19.2%	1.08	1.06	1.24	9.4%	12.0%	12.6%
1 year	2018	16.1%	11.4%	50.5%	1.15	1.12	1.33	9.6%	-0.6%	13.1%

Fund investments

		IRR*			PME-kvot**		
Period	Year	Total	Mature	Venture	Total	Mature	Venture
From start (22 years)	1997–2018	9.1%	14.6%	2.3%	0.99	1.20	0.66
10 years	2009–2018	13.3%	13.4%	13.0%	1.01	1.02	0.99
5 years	2014–2018	15.6%	13.3%	23.7%	1.12	1.08	1.34
1 year	2018	25.6%	15.6%	88.6%	1.19	1.14	1.45

Direct investments

		IRR*			PME-kvot**		
Period	Year	Total	Mature	Venture	Total	Mature	Venture
From start (22 years)	1997–2018	6.5%	15.0%	-8.6%	0.98	1.23	0.59
10 years	2009–2018	5.8%	10.9%	-8.8%	0.77	0.93	0.51
5 years	2014–2018	11.5%	11.4%	11.9%	1.05	1.05	1.06
1 year	2018	8.0%	7.8%	9.4%	1.11	1.11	1.12

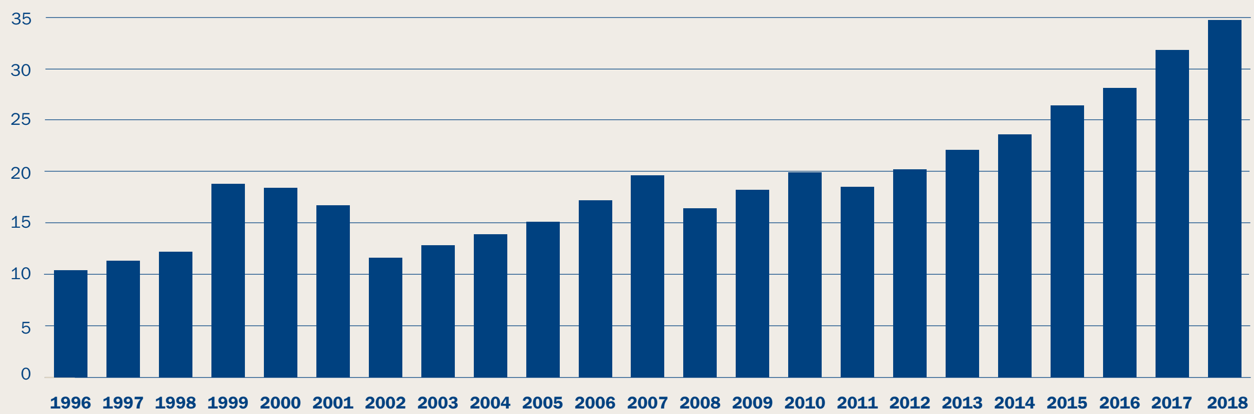
***Internal Rate of Return (IRR):** This is a measure of the average return for an investment segment. IRR is only an indication, which is not certain until a holding has been divested with a realized gain or loss. Accordingly, the measure become more relevant and certain over time

****PME (Public Market Equivalent):** This shows the relationship between actual delivered return and the return that could have been generated if all of AP6's cash flows (in and out) had been in the comparison index (SIX Nordic 200 Cap GI) on the same day that they were invested in or returned from the investments that were actually made. PME over 1.0 indicates higher return than what would have been achieved if the investment had been made in the comparison index.

*****PE benchmark:** This shows the return for a median fund in Europe covering all PE strategies. To make a fair evaluation of AP6's net return, this benchmark has been adjusted for an estimated liquidity requirement of 10 %. The figure for each period is thus comprised as follows: 90 % represents performance of unlisted assets and 10 % represents OMRX Treasury Bill.

AP6's capital development 1996–2018

SEK billion



Composition of the portfolio and risk diversification

10-YEAR PERFORMANCE (2009-2018)

Over the last 10 years, AP6 overall has generated an average annual return of 7.8 %, which is below the target return for the period of 15.5 %. The target for the period rose significantly compared to other broader indexes.

For example, MSCI Europe rose by 8.1 %, which is significantly below the target index (13.0 %). For the same period, the unlisted benchmark increased by 8.7 %. AP6's investing activities delivered a return of 8.6 %, which is in line with the benchmark. Investments in venture capital that were made within the scope of AP6's prior strategies negatively impact the return, however.

During the period, investments in buyout generated a return of 11.9 %, thus exceeding the unlisted benchmark.

In this segment, Fund Investments (return of 13.4 %) had a stronger performance than Direct Investments (return of 10.9 %). PME for the segment during this period was 0.97.

22-YEAR PERFORMANCE, SINCE THE START (1997-2018)

Since the start in 1996, AP6 has generated an average annual return of 5.6 %. It is lower than the return target of 11.9 % for the period.

In part, this is explained by the previous strategy and prior venture investments that were made. Furthermore, when AP6 was set up, it did not have any investments in the portfolio at all.

Investments in buyout companies, however, generated a return of 14.8 % on average per year, which is well above the return target. In this segment, Direct Investments (return of 15.0 %) had a stronger performance than Fund Investments (return of 14.6 %). The PME for the buyout segment was 1.22.

Fund capital's performance since the start

At the end of 2018, fund capital amounted to SEK 34.7 billion, compared with SEK 10.4 billion at the start of AP6.

AP6 has a well-diversified portfolio of investments with exposure, both directly and indirectly, in a variety of sectors, company sizes/stages of development, strategies, geographic location and timing of investments. All of it results in adequate risk diversification.

DISTRIBUTION OF FUND CAPITAL (SEK 34.7 BILLION)

AP6 still has a large amount of excess liquidity, even though it fell during the year from 30 % to 24 % of fund capital. For investing activities, there is a well-diversified portfolio of funds and direct investments. Development of the portfolio will continue, with AP6 making new investments and commitments at a high, steady rate. Committed capital that has not yet been employed amounts to SEK 16.9 billion, of which SEK 15.6 billion is Fund Investments and SEK 1.3 billion is Direct Investments. The rate of investment for this committed capital is an important component of liquidity management. Excess liquidity is expected to remain high over the next 2-4 years before balance is achieved between liquidity and capital employed.

DISTRIBUTION OF EMPLOYED CAPITAL (SEK 26.5 BILLION)

Employed capital, which amounts to 76 percent of the fund capital above, is distributed across a variety of investment types. On the fund side, it is comprised of preliminary commitments to funds (44 %) along with purchase of secondary shares and commitments to secondary funds (5 %). The portfolio is considered to be well-diversified on many levels, such as industry, vintage and geographic location. In total, funds represent 49 % of capital employed.

Direct investments represent 51 % of capital employed and primarily consist of co-investments (together with funds). During the year, ten such investments were made, and the resulting portfolio now consists of more than 40 companies. With returns in mind, AP6 intends to keep this same approximate balance between Fund Investments and Direct Investments. However, that will of course depend on the business opportunities that become available. The share of venture has declined during the year by four percentage points, which is primarily attributable to Creandum's sale of Spotify. In accordance with the current strategy, investments in venture are now only via funds.

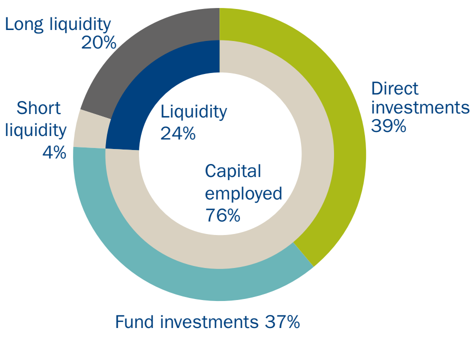
LIQUIDITY MANAGEMENT (SEK 8.1 BILLION)

Investments in unlisted assets are long-term in nature and they should be made over time with the aim of creating a good level of diversification. There can be excess liquidity over long periods of time. Temporary excess liquidity generated from the conversion to AP6's current strategy, continues to diminish, in accordance with plan. Liquidity management is divided into two categories: funds for short-term payment preparedness and more long-term management of excess liquidity. Short-term payment preparedness covers AP6's liquidity needs over the short term, which typically corresponds to the net cash flow of investing activities over a period of 6-12 months. Short-term management includes investments in low-risk, interest-bearing investments and cash-on-hand.

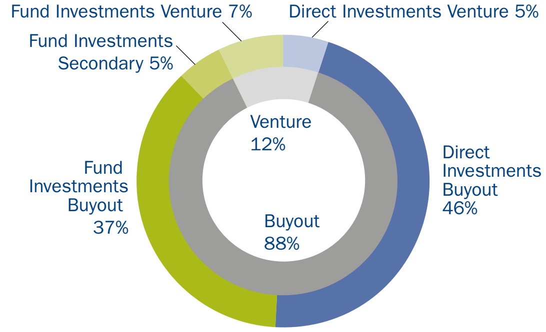
During the year, a new investment strategy for more long-term management of excess liquidity was implemented. With the aim of achieving a satis-factory, risk-adjusted return over time, 30 % has been invested in five geographically broad and passively managed stock indexes. The remainder is invested in fixed-income funds, with balanced interest-rate and credit risk. The equity exposure associated with these investments replaces the prior exposure to Lannebo Microcap, which was entirely divested in 2018.

Current excess liquidity management has been structured based on analysis and discussion with relevant sources, which has included feedback from AP2. Management of these assets is very resource-efficient, and it has been entirely outsourced. It means that AP6 can continue focusing on its core business, while ensuring that there is a management model in place during periods of high excess liquidity.

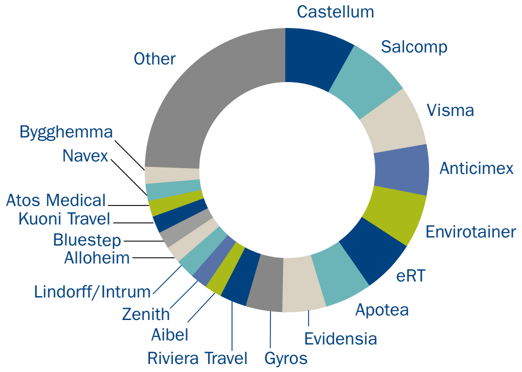
Distribution of fund capital



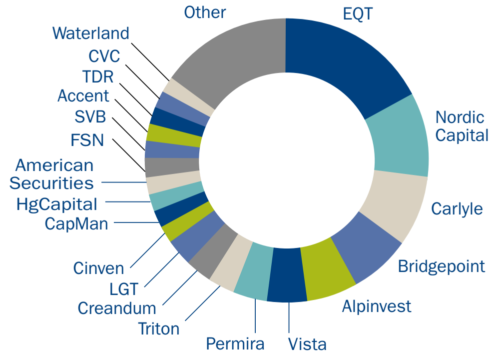
Capital employed (SEK 26.5 billion) allocated across market segments



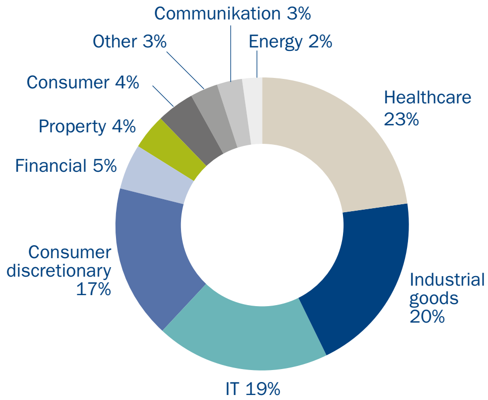
Major Direct investments



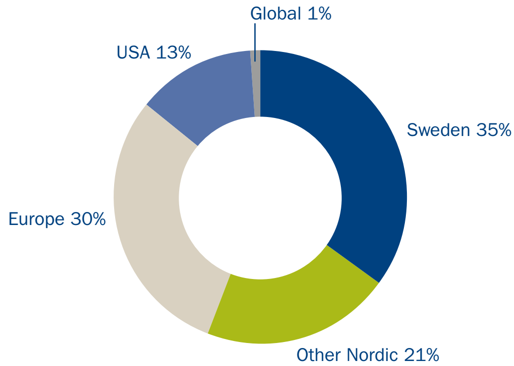
Major Fund investments



Sectors



Capital employed allocated across geographic areas



Over time, it should also generate a return, even though this year resulted in a loss of SEK 0.3 billion due to turbulence in stock markets towards the end of 2018. The main reason was the global down-turn, where stock indexes had turned negative. During the year, excess liquidity declined in accordance with plan from SEK 9.6 billion to SEK 8.1 billion. The rate of investment during the year remained high for both Fund Investments and Direct Investments. The treasury function also uses derivative instruments to manage AP6's foreign exchange risks. The result then becomes part of investing activities, counteracting the currency effects in underlying investments.

DIVERSIFICATION OF DIRECT INVESTMENTS (SEK 13.5 BILLION)

The portfolio of Direct investments, which represents 51 % of investing activities and 39 % of fund capital, contains holdings of more than 40 companies. Ten new investments were made during the year for a value of SEK 2.3 billion, resulting in a more diversified and rejuvenated portfolio. Some of the investments were made with new partners, outside the Nordic region. In 2016, Norrporten was sold to Castellum and a portion of the consideration consisted of shares. Because of that, the largest holding is a listed holding. Some of the holdings were divested in both 2017 and 2018.

DIVERSIFICATION OF FUND INVESTMENTS (SEK 28.6 BILLION)

The current market value of the fund portfolio is SEK 13.0 billion, which corresponds to 49 % of investing activities and 37 % of fund capital. Including the remaining committed capital of approximately 15.6 billion, the total value, including future investment commitments amounts to SEK 28.6 billion. The diversification strategy for these investments covers a variety of funds, management teams, investment strategies and geographic focus. There is also variation regarding the timing of investments. All of it is aimed at achieving adequate risk diversification at the portfolio level. It has been assessed that, with around 30 fund managers and approximately 80 funds with complementary strategies, there is adequate risk diversification for the fund segment. Indirect holdings gives fund investments an exposure to more than 450 companies.

INVESTING ACTIVITIES DIVERSIFICATION BY SECTOR

AP6 continues pursuing its diversification strategy, primarily by making commitments to funds that are focused on buyout. Only a few fund teams are focused on certain specific sectors, which means that the majority have a wide exposure to different industries. AP6's industry exposure is quite similar to the average PE market in Europe.

GEOGRAPHIC SPREAD FOR INVESTING ACTIVITIES

The graphs (page 9) show how the investment activities of the approximately 500 companies (fund and direct) are exposed to different regions. The exposure to the Nordic countries, including Sweden, is clear with a share of 56 % for the entire portfolio. At the same time, ongoing geographical broadening is clear as the corresponding figure for the previous year was 65 %. The portfolio will continue to have a majority of the capital invested in the Nordic region, but in order to find the best possible spread of risk in the placement of ever-increasing fund capital, the share is expected to continue to decline over the next years.

LIQUIDITY RISK

Liquidity risk is the risk that a financing crisis arises due to the timing of maturity on assets, liabilities and other commitments. Since AP6 does not have any inflows or outflows to and from the pension system, AP6 needs only to consider the liquidity risk in its own investment activities. Unlike other AP funds, where the proportion of the capital to be invested in low liquidity risk is regulated by law, AP6 has set the target that the liquidity reserve should amount to about 10 % of the total fund capital. There is also a line of credit that can be utilized if a need for financing arises. At the end of 2018, the liquidity reserve was SEK 8.1 billion, which corresponded to 24 % of the total fund capital.

Investment activities entail commitments in the form of capital commitments to owned companies and funds. This requires ongoing payment readiness that is managed within the framework of the own balance sheet. At the same time, AP6's return target refers to the total fund capital, which means that as much of the capital as possible should be invested in investment activities. In order to manage the balance sheet, forecasts for the liquidity need are made in the short and long term. The forecasts are important for AP6's ability to fulfill its commitments. During periods with large outflows and/ or small inflows, high demands are placed on liquidity resources, which in turn gives less room for new investment commitments. Liquidity is today considerably larger than what can normally be considered necessary to be able to parry the total portfolio's inflows and outflows, and optimize the short-term return. In 2018, the equity exposure that was included in the administration was realized in the form of a Swedish listed small company fund. The investment strategy for excess liquidity was assessed during the year and equity exposure was replaced by five geographically broad stock indexes. Investments are also made in fixed-income funds. The management is thus more liquid than before, since withdrawals can be made within a few working days. This is how AP6, as a closed fund, manages its liquidity risk in the best possible way.

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Photos: Johan Olsson
The cover shows a collage of photos from the round table discussions on equality and diversity in the Nordic PE sector that AP6 organized in 2018. Several Nordic PE firms participated.
The photo on page 5 is of Sophia Bendz, Investment Partner Atomico, who was one of the participants in AP6's round table discussions.
The photo on page 10 is of AP6 employees.

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