

# Report of the Month

ReportWatch e.com

December 2009

## Första AP-Fonden

Stockholm, Sweden



## Report Facts

**Company name:** Första AP-Fonden  
**Fiscal year end:** December 31, 2008  
**Report title:** *Annual report 2008*  
**Chairman of the Board:** Anna Hedborg  
**Managing Director:** Johan Magnusson  
**Number of books:** One  
**Report length:** 80 pages  
**Auditors:** Ernst & Young AB  
**Production and design:** Första AP-Fonden with Hallvarsson & Halvarsson  
**E-mail:** [info@ap1.se](mailto:info@ap1.se)

## Report Rating: ★★★★★

(Read the note about the rating scale below)

## Context

The Swedish pension system can be likened to a pyramid in which the national retirement pension forms the base, the supplementary occupational pension comprises the mid-layer and the top consists of voluntary, private pension savings. The AP-fonden (funds) are part of the national retirement pension system.

(As explained in the Annual Report pp 12-13)

## Profile

*The Swedish parliament has assigned Första AP-fonden the mission of managing part of the national income pension system's assets. Första AP-fonden shall achieve the highest possible returns on the fund's assets, with well-balanced financial risks, and thereby contribute to high and predictable long-term retirement pensions for current and future pensioners.*

(Annual Report source) (Italics are own company's words)

## Key Figures

**Closing net assets:** SEK 171.6 billion  
**Net investment income:** (SEK 48 billion)  
**Total return (before expenses):** -21.7%  
**Active return (before expenses):** -0.7%  
**Currency exposure:** 22.2%

(Source: 2008 figures sourced from the annual report)

## Report Rating: ★★★★★ Triple A

- > Outstandingly thorough *Highlights*, setting forth a five-year overview, active return contribution, *asset exposure to different regions*, a description of *asset classes* and return.
- > Year's *dramatic chain of events and its repercussions* honestly put in perspective. Better than in dozens of private or public sector financial institutions' reports.
- > Clear description of the mission, the context, the asset management model and their implications on the scope of activities.
- > Goals and strategies smartly mapped out.
- > Five-year overview rich in ratios.
- > Very good and clearly put review of operations (see Selected Pages).

## Double A

- > Simple, clear and effective layout and circle-by-circle report thread.
- > Well-structured and user-friendly online version, downloadable in short sections.
- > Strong use of charts, graphs, diagrams, maps.
- > Governance section shows the participation in companies' shareholder meetings.

## Simple A

- > Risk factors and management addressed, yet insufficiently developed.
- > Accounting and valuation principles could be more elaborate.
- > Pictures do their placard-carrying job.

## B sides ?

- > Report ending and back covers not used.
- > Couldn't statements span over three years?
- > Notes to statements are much too short and lack comments.

### Note about the Rating Scale

The rating is based on intrinsic report characteristics and are not entirely comparable with the ones applying to listed corporations and financial institutions. However, it may be compared with other government-controlled institutions in and out the sector.

★★★★★: First-rate ★★★★★(★): Excellent ★★★★★: Very good ★★★★★(★): Sound ★★★★★: Average

★★(★): Uneven ★★: Common ★(★): Substandard ★: Poor (★): Uncompetitive

The rating is based on ReportWatch internal desk research and does not take into account the independent Rating Panel's judgment. It may therefore differ from ratings (to be) published in the *Annual Report on Annual Reports*.

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*How does the company report in key areas? What are the main report pluses and minuses?*

*The **Report Scan** gives an overview of strengths and weaknesses, and scores each item.*

Contact [e.com@reportwatch.net](mailto:e.com@reportwatch.net)

Operations and results in 2008 - Directors' report

## Active return

Första AP-fondens investment model is based on active management of the Fund's assets. The goal is to outperform return on the strategic benchmark by 0.5 percentage points both annually and over rolling five-year periods. In 2008 the Fund earned a return on listed assets of -22.4 percent, compared to a return of -21.7 percent for the strategic benchmark. Active return for 2008 was -0.7 percentage points.

Three of the Fund's five investment units made a positive contribution to active return in 2008; foreign exchange and treasury, external management and fixed income.

### Active risk

The Fund's active positioning gives rise to active risk, i.e. fluctuations in return caused by over- and underweights relative to the strategic benchmark. Active risk is an important metric that is both measured historically and forecasted continuously. The Fund's realized active risk during the year was in the range of 0.5–1.6 percent.

### Risk-adjusted return

The Fund works with a large number of independent internal and external mandates to achieve a high degree of risk diversification in the portfolio. The idea is for risk in the individual mandates to partially offset each other when the Fund's total risk is aggregated. In evaluation of the chosen investment

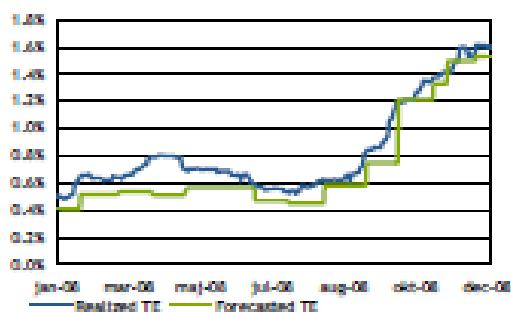
strategies, it is important to not only measure return but also consider the level of risk with which this return was achieved. The most widely used measure of a manager's risk-adjusted return is the information ratio, which relates active return to the risk taken by deviating from index. The information ratio for 2008 was negative.

### Five-year overview

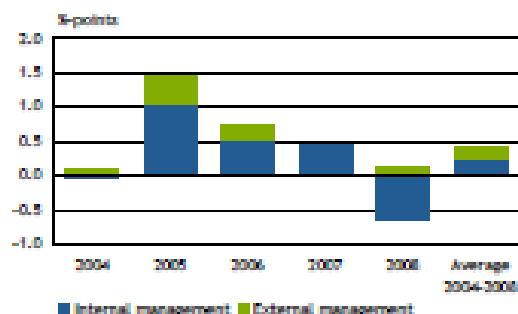
Measured over the period from 2003 to 2007, the Fund's active management produced an annualized return of 0.5 percentage points, with fixed income, foreign exchange and equity positions all delivering above-index returns during the period. For 2008, return on active management was -0.7 percentage points, equal to an investment loss of SEK 1.3 billion before operating expenses. Annualized active return for the period 2004–2008 was 0.3 percentage points. Over the same period, active return has been positive in 63 percent of the months and contributed a total of SEK 3.0 billion to the Fund's total return.

The target for risk-adjusted return, measured as an information ratio, should exceed 0.3 percentage points over a rolling five-year period. Over the past five-year period, the average annual information ratio was 0.5.

Forecasted and realized tracking error in 2008 for the Fund's listed assets



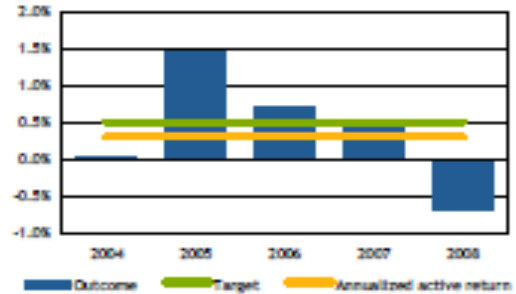
Active return, internal and external management



Cumulative active return on listed assets,  
January 2004-December 2008



Annualized active return on listed assets



Active return on listed assets in 2008, %-points

Contribution from:	Per unit <sup>1</sup>	Total
Global macro allocation	-0.25	
Tactical asset allocation	-0.26	
Intern equity management, Sweden	-1.30	
Intern equity management, Europe	-0.62	
Internal fixed income management	0.35	
Foreign exchange and treasury	0.18	
<b>Total Internal management</b>		<b>-0.66</b>
External management	0.36	
<b>Total Internal and external management</b>		<b>-0.52</b>
Securities lending		-0.10
Other		-0.07
<b>Total active return</b>		<b>-0.69</b>

<sup>1</sup> Active return relative to each unit's Index.

