



Definitions and Glossary

Buffer funds – The AP funds are public pension funds that have existed in Sweden since the 1960s. They have changed in character, number and focus over the years. The five AP funds (AP1-4 and AP6) are buffer funds and they are included as a minor portion of the income pension system's assets. The Seventh AP Fund manages the funded capital of the premium pension system. As of 2009 and for approximately 25 years into the future, pension disbursements will exceed the pension contributions. The AP Funds are mandated to even out the temporary variations between pension contributions and pensions disbursements. They must also contribute to the long-term financing of the pension system.

Buyout – Unlisted mature companies with an established business model that have established a market position and have a positive cash flow. It is an English expression that originates from transactions where an investor "buys out" the existing owners in an unlisted company.

Co-investment – This is when a Limited Partner (LP), such as AP6, has invested in a fund and then invests directly in a company together with the fund.

Compliance – Adherence to regulations.

Corporate Governance – A collective term to describe issues relating to the way companies are governed. Central to the concept of corporate governance is the relationship between the various executive and shareholder functions of a company (general meeting of shareholders, board of directors, managing director).

Direct investment – With a direct investment, the investor obtains a holding in the form of shares in the unlisted company. The investor thus has direct ownership in the company.

Due diligence – a work process and method for gathering and analysing information about a company or a fund prior to making an investment.

ESG – Acronym for environmental, social and corporate governance.

EV/EBITDA – Calculated by dividing the company's enterprise value by the operating profit (before depreciation and amortization, net financial items and tax).

EV/Sales – Calculated by dividing the company's enterprise value by sales.

Fund investment (unlisted assets) – The market for fund investments is comprised of a variety of different private equity firms with different focuses and profiles. A private equity firm that would like to establish a new fund and is seeking investors for that, thus engages in fundraising. The new fund will have a specific size as regards the total amount invested. Investors who have notified that they are interested (such as pension funds, insurance companies, etc.) are then allocated a share of the new fund. The investors make a commitment, which means that they commit to paying in a certain amount corresponding to their share of the fund. If there is much interest from potential investors, they may not be given the opportunity of investing the entire amount that they were willing to commit. It may also be the case that some investors are not given the opportunity to invest at all. That happens when the fund is oversubscribed and there simply aren't enough allotments for all of the investors wanting to participate. Once the shares in the new fund have been allocated, the fundraising stage is officially over. However, the amounts that the various investors have committed are not paid in a lump sum. Rather, payments from investors are made at the rate that the fund acquires companies.

A typical fund has a lifespan of about 10 years. During that time, the fund typically invests in around 15-20 companies. These companies are developed in a way that will generate higher value. The fund is closed once all of the companies have been divested and the invested capital, including the gains, have been distributed to the investors.

Fund capital AP6 – The initial capital allocated to the Sixth AP Fund at inception, together with accumulated profits/losses. AP6 covers its own costs. Profits from investments are continually reinvested.

General Partner (GP) – The private equity firm that manages the fund. Typically, a GP manages several funds simultaneously.

Global Reporting Initiative (GRI) – An international reporting framework for organizations' economic, environmental and social impact.

Governance – see corporate governance.

Sustainability Report – A report describing how a company addresses economic, environmental and social issues.

ILPA – Institutional Limited Partners Association. International trade association for investors in private equity funds.

Indirect investment in an unlisted company – With a fund investment, the investor obtains indirect ownership. It occurs from the investor obtaining a holding in a fund, which in turn invests in the unlisted company. The fund is the formal owner of these companies, while the investor in the fund has an indirect ownership in the company. See also Fund investment.

Invest Europe – European trade association for private equity funds. Included here is buyout, venture and infrastructure.

IPEV – International Private Equity and Venture Capital Valuation Board.

IRR – Internal rate of Return – Describes the return on an investment in the form of an interest rate.

Carbon Footprint – a measure of an investment portfolio's carbon dioxide emissions and it comprises the investor's share of the portfolio companies' total emissions.

Limited Partner (LP) – an investor in a fund, such as AP6.

Management fee – Refers to fees paid for the management of a fund.

Market value assets – Listed securities valued at market value at year-end and unlisted securities valued according to IPEV principles. See Note 1 for more details.

Unlisted assets – These are primarily unlisted companies, which means companies that are traded on a stock exchange.

Operative share % – Refers to the ownership interest in a private equity fund irrespective of legal structure. The legal ownership is reported in Note 9.

Principles for Responsible Investment (PRI) – Six principles that investors can adopt and which encourage companies to incorporate environmental, social responsibility and corporate governance issues into their investment analyses, decision-making processes, guidelines and procedures. The principles were initiated by the UN and launched in 2006.

Risk Capital or Private Equity (PE) – Both of these are collective terms for unlisted assets. Typically, it refers to unlisted companies (i.e. not traded on a stock exchange), in part unlisted companies and in part funds investing in unlisted companies.

Private equity fund – see Fund investment.

Profit/loss – The total change in the value, both realized and unrealized, of assets, returns in the form of interest and dividends, less external management fees and internal expenses.

Risk premium – The compensation required by an investor in return for investing in shares, for instance, rather than investing in risk-free assets.

Scope 1, 2, 3 – Measurement of carbon emissions gathers direct and indirect emissions into three groups: Scope 1 consists of direct emissions from sources owned or controlled by the reporting entity. Scope 2 consists of indirect emissions generated from purchased electricity, heating or cooling. Scope 3 consists of other indirect emissions that are a consequence of the reporting entity's activities, but which occur from sources owned or controlled by another entity, for instance production of materials and fuel, supplier and customer transports, waste management, etc.

Secondary – When an investor in a fund wants to sell its share before the fund is closed. Typically, this requires a customized solution that brings together several interested investors. With a secondary transaction, a main player typically solves various problems for a number of investors, while simultaneously creating new opportunities.

Structural capital – A company's or organization's shared intellectual capital, collected and documented in the systems of the company/ organization.

SVCA – Swedish Private Equity & Venture Capital Association.

UN Global Compact – Ten principles about companies and human rights, labour rights, the environment and anti-corruption, which companies can support and which were launched by the UN in 1999.

Code of Conduct – The Board of AP6 has established and adopted a code of conduct that describes the values that apply to the business and is intended for use by employees, partners and investments. The Code of Conduct is actively communicated to these groups.

- Core areas covered by the Code of Conduct are:
- Employee and stakeholder training and know-how
 - Requirements for business partners and holdings in companies and funds
 - Anti-corruption, bribes and gifts
 - Human rights and social justice
 - Environmental principles and considerations
 - Compliance, dialogue and consequences/controls

Committed capital When an investor decides to invest in a fund, a commitment is made for a specific amount. That amount is never paid as a lump sum. Rather, it is claimed at the rate that the fund invests in the company. See also Fund investment.

Venture – Newly started companies with a business concept that typically will require capital over a long period of time before the company succeeds in establishing a market position and generating a profit.

Fair value – Fair value is defined as the amount at which an asset could be transferred or a liability settled, between parties who are independent of each other but who both have an interest in ensuring that the transaction goes ahead. In normal circumstances this means that listed assets are valued at the purchase price (market value) and that the fair value of unlisted assets is estimated using generally accepted valuation models.