

# Sixth AP Fund Annual Report 2016

Fund investments

Direct investments

Secondary



## NEW PORTFOLIO EVOLVING

The rate of investment in 2016 was the highest in years, thanks to our goal-oriented, outreach efforts with a growing number of partners and a much larger network, not least internationally.

4

## EXPERIENCED PE SPECIALIST

With 20 years of experience, AP6 is, based on international comparisons, at the forefront. Its vast expertise – Fund investments, Direct investments and Secondary – provides distinct competitive advantages.

6

## ESG ASSESSMENT

AP6's assessment model for the ESG efforts of PE funds has been well received by the industry. The global PE fund, Carlyle, particularly appreciates that the feedback is measurable.

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# Sixth AP Fund in five minutes

## Specialist skills

Investing in unlisted assets is a knowledge-intensive activity, requiring specialist skills and networks that take many years to develop. Over a period of 20 years, Sixth AP Fund (AP6) has acquired the dual expertise required for making direct investments in unlisted companies. The fund has developed internal working methods and processes that enable it to be an active, responsible and demanding owner, which stands up well in international comparisons.

## Stable and high returns

Unlisted companies often have a few owners and a mutual ownership agenda which should be implemented within a specified time frame. This in itself brings value creation into focus. Unlisted companies are not affected by the occasionally sharp swings on the stock market during short-term upward or downward trends. Viewed over time, the valuation of an unlisted company shows a more even development. International research suggests that the return on investments in unlisted assets is higher long term, than the return on stock market investments.

## Specialist in unlisted securities

AP6 differs from the other National Pension (AP) funds in the Swedish buffer capital system in that it has a special mandate - decided by the Riksdag (Act 2000:193) - to invest in unlisted assets. These assets are companies that are not listed on any stock market. AP6 is also a closed fund. In simplified terms this means no new money coming in, no money going out. AP6 manages the capital allocated to it at inception in 1996, plus the returns that have been generated.

## Directly and indirectly

AP6 invests in unlisted companies in two ways, directly and indirectly. Direct investment means that AP6 buys shares in an unlisted company. This amounts to direct ownership with AP6 taking a seat on the board when doing so is motivated, based on the ownership share.

Indirect investment refers to AP6 making an investment in a private equity fund, which in turn invests in unlisted companies. In this case, AP6 does not have a direct ownership interest in the actual companies. Instead, AP6, together with other investors, has

a stake in the private equity fund. With investments in private equity funds, AP6's influence takes the form of ongoing contact and often a seat on the advisory committee. Many of the largest investors in a private equity fund have a seat on the advisory committee.

## Long-term ownership

Like many other players in the unlisted market, AP6 is a long-term investor, with an investment horizon of between five and ten years. Investors in unlisted assets need perseverance. Unlisted investments are often described as not being liquid in the same way as, say, listed companies, whose shares can be acquired and disposed of much more easily and quickly.

## Sustainability

As a state-owned pension fund manager and investor in unlisted assets, AP6 has many opportunities for making an impact in the area of sustainability. Sustainability is an integral part of the investment process which includes models for ESG due diligence and monitoring. AP6 regards sustainability to be a prerequisite for achieving high returns in the long term.

# 28.1

billion (SEK) of assets under management by the Sixth AP Fund

# 1,722

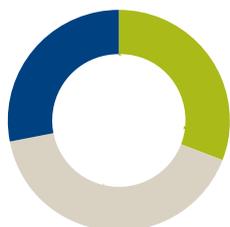
SEK m – net profit for the year

# 6.5%

return for the year

# Sixth AP Fund in figures

Sixth AP Fund manages  
SEK 28.1 billion



- **Direct Investments, 28%**  
/approx. 30 companies
- **Private equity funds, 31%**  
/approx. 300 companies
- **Liquidity, 41%**

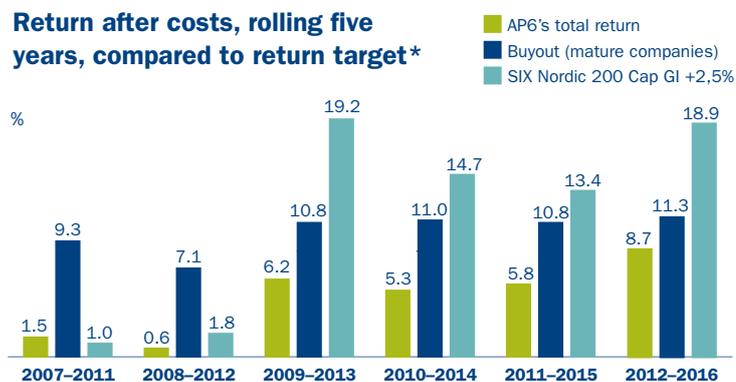
# 10.1%

The average return on mature investments for the last 10 years

## Return after costs 2007-2016



## Return after costs, rolling five years, compared to return target\*



\* Buyout (mature companies) is reported separately since investments in this segment are in line with APG's strategy since 2011.

## Return over ten and five years, and in 2016

Years	2007-2016	2012-2016	2016
<b>Total buyout, %</b>	10.1	11.3	9.8
- Funds	11.8	14.0	8.1
- Direct	9.2	9.9	11.1
<b>Total venture capital, %</b>	-6.0	2.9	8.0
- Funds	1.7	13.0	8.0
- Direct	-12.7	-5.9	8.0
<b>Return target</b>	9.6	18.9	10.5

## Profit/loss breakdown by segment, 2007-2016

SEK million	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average return, %
Buyout (mature companies)	1,976	-875	937	1,548	1,104	1,566	998	971	2,177	1,424	10.1
Venture Capital (early phase)	468	-874	-121	-683	-2,087	-131	176	196	331	192	-6.0
<b>Return on capital employed</b>	<b>2,444</b>	<b>-1,749</b>	<b>816</b>	<b>865</b>	<b>-983</b>	<b>1,435</b>	<b>1,174</b>	<b>1,167</b>	<b>2,508</b>	<b>1,616</b>	<b>5.9</b>
Treasury, risk management and internal costs	-12	-1,503	1,037	841	-397	266	686	274	359	106	-
<b>Profit/Loss</b>	<b>2,432</b>	<b>-3,252</b>	<b>1,853</b>	<b>1,706</b>	<b>-1,380</b>	<b>1,701</b>	<b>1,860</b>	<b>1,441</b>	<b>2,867</b>	<b>1,722</b>	<b>5.1</b>

# Key events in 2016

## Realignment of portfolio concluded

Since 2011, efforts have been underway to realign the portfolio, which is based on a decision by the Board of Directors to follow a new investment direction. Holdings that did not conform to the new direction have gradually been divested. With divestment of the two largest holdings, Volvofinans in 2015 and Norrporten in 2016, the realignment has now essentially been completed. This five-year process has been successful. For Norrporten – one of the largest real-estate companies in Sweden – the return has been around 15 percent per year, over a 15 year period.

All of this has involved divestiture of many holdings, while building up a new portfolio of investments. The annual return on the capital employed over the last five years has been 9.8 percent.

## Many new direct investments

The large quantity of direct investments executed during the year is a result of long-term collaboration that has been established and strengthened with private equity funds and other investors in recent years. During the year, around ten new direct investments were executed. Four of these were implemented together with EQT and two were in collaboration with FSN. Investments were also made in new portfolio companies together with Nordic Capital, Triton, Cinven and Permira.

A direct investment was also made with a new partner, the private equity fund, PAI Partner. Usually, this type of investment is based on being an existing investor in the private equity fund. AP6 has not committed capital to PAI Partner, but it is nevertheless a participating investor in one of the fund's companies. The investment was possible due to having established a relationship over a long period time, together with AP6's extensive experience in transactions.

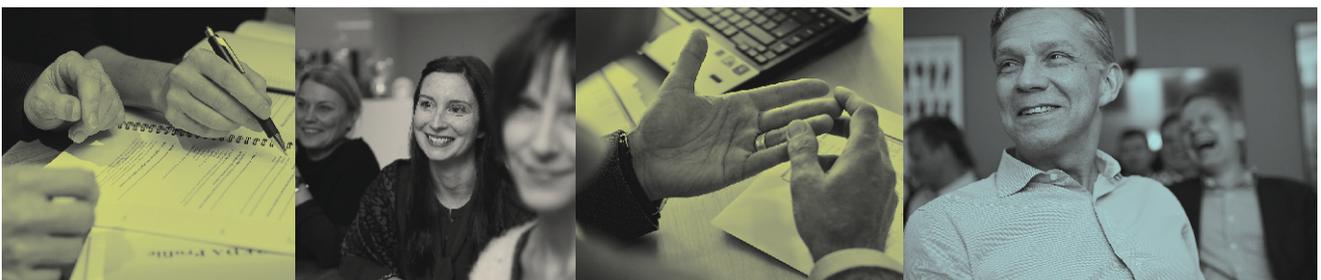
## Large number of new fund commitments

Expansion of the AP6 fund portfolio have been extensive during the year, in line with the plan that is based on the new investment direction. A large number of new fund commitments were concluded during the year as well, which has engaged AP6 in several new collaborations with leading funds. As a result, the portfolio has become more international.

Commitments to already existing partners include EQT, FSN and Creandum. Examples of new partners are Cinven, Permira and HgCapital. Overall, the fund commitments during the year were with local, European and global players.

## Secondary Investments

During the year, a number of secondary transactions were also executed. Existing shares in three different funds were acquired directly from the Second AP Fund. Capital was also committed to AlInvest Secondaries Fund, along with a co-investment that was executed in conjunction with the fund's first investment.



# 20 years of expertise in Private Equity investments

*Two decades of experience making investments in unlisted assets, while gradually increasing the focus on Private Equity, has resulted in a good risk-adjusted return and, based on international comparisons, an organization that is at the forefront.*

**2**016 was the year that AP6 celebrated 20 years as investor in the asset class, Private Equity (PE). Already in 1990s, the first collaborations were entered into with private equity funds, along with the first direct investments in unlisted companies. This more or less qualifies AP6 as a veteran, in what is a relatively young industry. Since then, the industry has seen substantial growth. It has also become more professional, and international. Successful players have established efficient business models, typically with an increasing level of specialization in certain sectors, or in companies that are at a particular stage of development, covering an ever-widening geographic area. PE has become an established, attractive asset class for leading international pension fund managers all over the world. Correctly executed, this asset class offers excellent opportunities for risk diversification, in combination with stable, high returns that outperform the market index over the long term.

To a large extent, AP6 reflects how the sector for unlisted investments has developed. During the 20 years of its existence, AP6's investment focus has fluctuated, yet always within the scope of unlisted securities. Following evaluation and analysis, the Board of Directors decided in 2011 to focus the investment activities towards more mature companies in the area of PE.

The vast experience of AP6 forms the basis of the expertise that is required for making direct investments in unlisted companies and conducting fund investments. These two categories of investments require different types of expertise and networks,

which take many years to establish. It is exactly this combination that makes AP6 unique in the market.

The new direction that was decided in 2011, was to become the starting point for an extensive process of changes. A considerable portion of the existing portfolio needed to be realigned, while simultaneously constructing a portfolio of new holdings in line with the focused strategy. We've now come quite far with this realignment and the long-term change process has been successful.

## **SUCCESSFUL REALIGNMENT OF PRIOR HOLDINGS**

The goal of this change effort has, of course, been to maximize the return on pension assets. The work has been done with great care and it has been ongoing for five years. Although that might sound like a long time, it is normal as regards the world of unlisted investments. Emphasis has been given to the importance of maximizing the return on pension assets, rather than trying to complete the effort by a specific deadline. The portfolio has generated a good return during this period, of, on average, 9.8 percent per year on the capital employed over the last five years.

The single largest holding, Norrporten, which is one of Sweden's largest property companies, was sold during the year to Castellum. AP6 and AP2 jointly owned Norrporten over a long period of time. AP6's investment in Norrporten has generated a good return for Swedish pensioners: 15 percent per year, over a 15 year period. Volvofinans Bank AB is another import-

ant holding in the prior portfolio and our investment there was recently sold to Volvo Car Corporation. With that divestment, AP6 realized a significant gain.

These two divestments, both of which were concluded in 2016, marked the conclusion of efforts to realign the portfolio that was based on prior strategies. Successful sales of holdings have however led to a temporarily very high level of liquidity. It will be employed in a way that is consistent with the existing strategy, in conjunction with the ongoing construction of a balanced portfolio of PE holdings, which combines fund commitments with direct investments.

## **NEW PORTFOLIO GROWING**

While realigning of prior holdings, there has been an intensive effort to establish a new portfolio of high yield investments. Investment activities over the last few years have taken us about halfway to our goal with this. For AP6, it is of utmost importance to employ the freed-up capital in a way that ensures high long-term returns. We are convinced that the best way to do this is by maintaining a high, yet steady rate of investment over time. As a closed fund, our assessment is that the temporarily high liquidity will be employed in new holdings during the next 3-5 years. Unlike investing all capital over the short term, a constant investment rate over the years is an established method for minimizing risk and creating a balanced portfolio. AP6 has a long-term strategy in place for doing just that.

## **HIGH RATE OF INVESTMENT IN 2016**

The past year has been very successful in



terms of obtaining access to interesting investments with potential for high future returns. As planned, the investment rate has been the highest in many years. It is the result of conscientious outreach efforts, with an increasing number of partners in an ever-expanding network that extends internationally.

During the year, AP6 made around ten new fund commitments. The managers behind these funds, who have been carefully evaluated using our internal processes, will help ensure that a significant portion of our available capital is invested in unlisted companies over the coming years. Many of the commitments have been made to partners that are new to us and who are active on a more international market. AP6 has successfully established new collaborations during the year, in a market where there is very good access to capital. AP6's dual expertise (fund investments and direct investments) is key to our standing out as an attractive partner, among all competitors, globally.

During the year, AP6 also made around ten new direct investments in collaboration with other PE players. Most of these were done together with funds where we also

have committed capital, i.e. co-investments. A critical success factor is the expertise and experience that AP6 has in evaluating and making direct investments in unlisted companies. It provides access to attractive investment opportunities that otherwise would not be available to us, and at a very low management cost.

#### **FOCUS ON AND WIDE SCOPE IN PE**

The strategic focus on PE over recent years has led to an even higher level of specialization in unlisted investments. There are however several types of transaction options within this area of investment, each of which requires specialist expertise. AP6 strives to use its in-house knowledge to master the various types of investments that fit within the asset class, leading to more business opportunities and greater flexibility in balancing the portfolio over time. 2016 was a year in which AP6 demonstrated its ability to manage own direct investments, as well as a substantial number of co-investments. It also shows our ability to obtain access to top fund managers, and work with secondary transactions in order to balance the overall portfolio. Our vast experience

in PE gives AP6 an advantage over other investors who have chosen to only invest in funds.

#### **ASSESSMENT AND REQUIREMENTS**

As a pension fund manager, building a strategy based on collaboration and minority positions provides stability and a high level of efficiency. At the same time, however, it puts high demands on the ability to evaluate and place requirements on partners and majority shareholders. Sustainability is one key component, along with how it is integrated into investment activities. Accordingly, AP6 has chosen to focus much of its efforts on developing its own evaluation and follow-up models for PE funds that also take sustainability into account. All of the private equity funds in which AP6 invests are continually evaluated. Results are monitored both internally and directly, with each fund. AP6 uses its own comparisons of a large number of funds to engage in constructive dialog, where there is a high level of openness with the private equity funds.

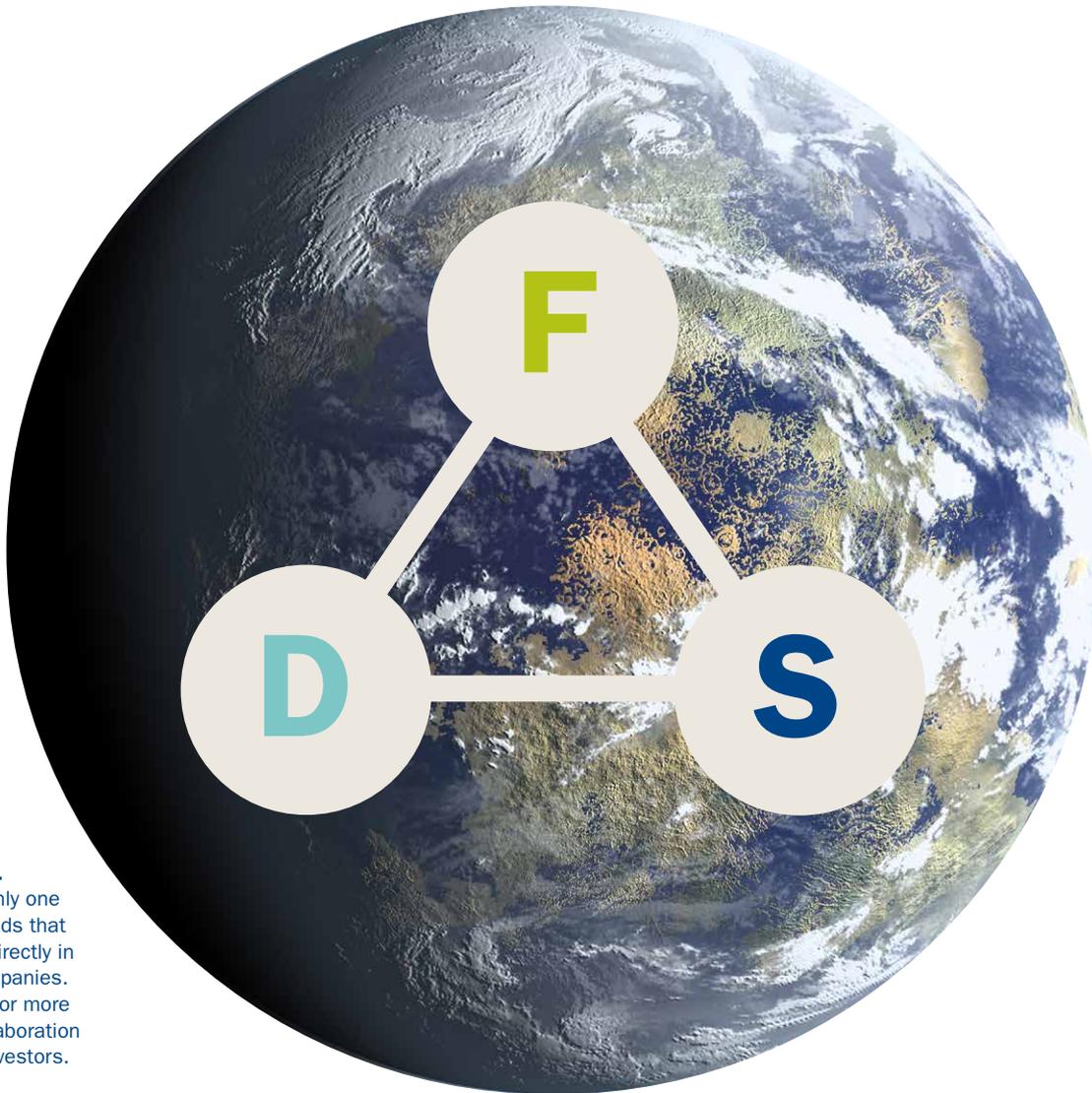
#### **WELL POSITIONED FOR THE "SECOND HALF"**

Now at the halfway point in our change process, which is aimed at positioning AP6 as one of the leading international pension fund managers in the PE sector, I am very satisfied with what we have thus far achieved. I am proud of the professionalism our team has exhibited, along with their loyalty and patience, on a daily basis. Without it, the success of our change initiative would not have been possible.

Having completed the transition, with a unique position in the market and a healthy balance sheet, I am optimistic about our future and ability to deliver a long-term high return, with adequate risk diversification on pension assets.

Gothenburg, February 2017

Karl Swartling  
*Managing Director, Sixth AP Fund*



**D**

**Direct investments.**

AP6 is the only one of the AP funds that may invest directly in unlisted companies. It opens up for more in-depth collaboration with other investors.

**F**

**Fund investments.**

AP6 commits capital to PE funds. With its long history as investor, AP6 continues expanding its network and has obtained access to the leading PE funds.

**S**

**Secondary.**

Established market for purchase and sale of fund units. AP6 benefits from its extensive analysis expertise in Fund investments and Direct investments.

## Extensive transaction experience builds new portfolio

**S**ixth AP fund (AP6) was established in 1996, at which time it was supplied with SEK 10.4 billion. These funds were to be managed through investments in the private equity market (PE), i.e. unlisted companies, with the goal of delivering a long-term high return, with adequate risk diversification. AP6 was established as a closed fund, which means without any inflows or outflows of

capital linked to the rest of the pension system. The purpose of AP6 was to manage the capital originally allocated to it, along with all of the generated returns over time. By the end of 2016, that capital had grown to SEK 28.1 billion.

At the time when AP6 was established, the Nordic private equity market was still rather young and undeveloped. During the 1990s, many players became established,

with a focus on investments in unlisted companies in a variety of sectors and at different stages of development. There was, in particular, great interest and expectations for start-ups that had business models aimed at benefiting from the transition to a digital society.

During the last two decades, the market for unlisted investments has developed at breakneck speed, with periods of sharp

**» ...AP6 is currently a pension fund manager in the PE sector, highly competitive in comparison to leading international players.**

decline, but also very favorable market conditions. During this time, the sector has matured and become more professional. Successful players have learned from their experiences and they have institutionalized efficient processes and methods for this type of investment activity. Like other sectors, the level of internationalization has been high. Leading players, who had been focused on unlisted investments in Sweden or the Nordic region, now have established organizations and networks for investments in the rest of Europe, as well as North America, and in some cases also Asia. Foreign players have, at the same time, shown considerably more interest and ability to invest in the Nordic market. International collaboration, across country borders and continents, is also now common for this type of investment.

The progress of AP6 since it was established in 1996 reflects the market. Focus has always been on investments in unlisted assets. However, the investment approaches have been developed and refined over the years. For example, over the years, direct investments have been made in start-up companies, along with commitments to private equity investment funds, own majority investments in mature companies and regional investment funds. Originally, the investment focus was almost exclusively Swedish. But over time, it has widened to the Nordic region and recently, become increasingly international.

AP6's current investment approach still has its base and home market in the Nordic region. As the sector has become more international, however, foreign collaboration and holdings have gradually increased, which is a trend that will continue in the future. Over the past five years, AP6 has, for unlisted securities, focused its investment strategy on more mature companies. Investments in these types of companies are made either directly, as minority investors, or indirectly, via PE funds. In the role of

minority investor, AP6 invests together with other, reputable investors. These are, for example, either PE funds where AP6 already has a collaboration in place, or with other investment organizations that seek co-investors.

**BREADTH OF PE FUNDS, WITH MANY TRANSACTION OPTIONS**

AP6 is, today, a highly specialized player in PE. Having been in the business for quite some time, it has accumulated valuable knowledge and gradually refined its expertise to a very high level. AP6 is currently a pension fund manager in the PE sector, highly competitive in comparison to leading international players.

For AP6, as with other leading players, however, balance is sought between scope and depth of expertise. The portfolio of unlisted holdings is constructed via three primary investment approaches.

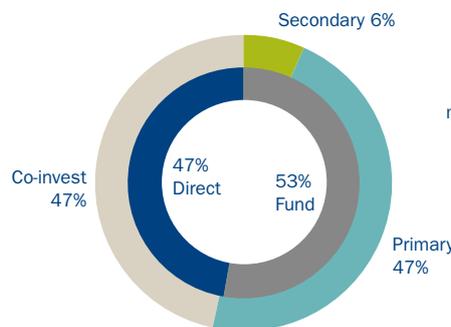
**FUND INVESTMENTS:** AP6 commits capital to Private Equity funds. These, in turn, invest the capital by acquiring unlisted companies. The life span of a typical fund is around 10 years, during which time, it consists of around 15-20 holdings. The fund is closed once all of the companies

have been divested and the capital (including the return) has been returned. There is a specific strategy and focus for each fund. AP6's strategy is to create a well-diversified portfolio of funds under the guidance of the best managers, with complementary strategies. This includes buyout funds (with a focus on mature companies), along with select venture capital funds (with focus on relatively new start-ups).

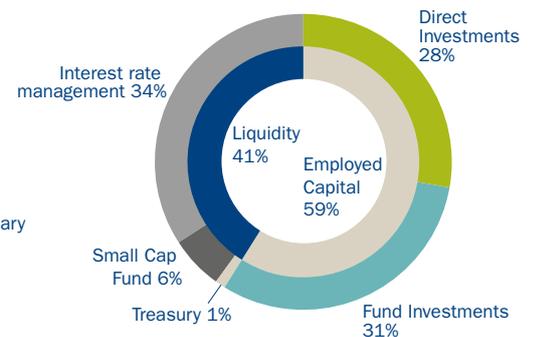
**SECONDARY:** A secondary market, for buying and selling fund units as described above, has developed over time simultaneous to evolution of the private equity sector. AP6 also applies its expertise to these types of transactions, with the purpose of adapting its overall portfolio and exploiting interesting business opportunities that arise. This is done, for example, through collaboration with external players highly specialized in these types of secondary transactions, or via own transactions.

**DIRECT INVESTMENTS:** AP6 invests directly in unlisted companies. In line with the current strategy, AP6 seeks minority positions based on collaborations with other investors. These could be funds that AP6 already invests in, or other types of invest-

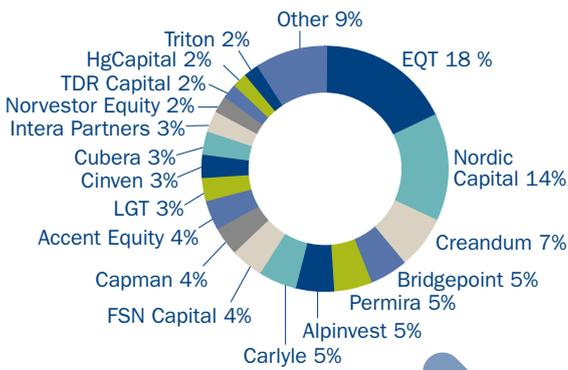
**Distribution of employed capital**



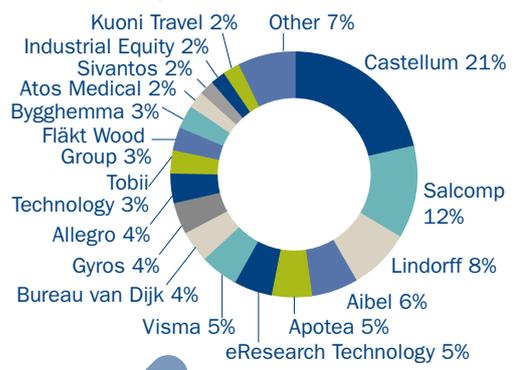
**Distribution of fund capital**



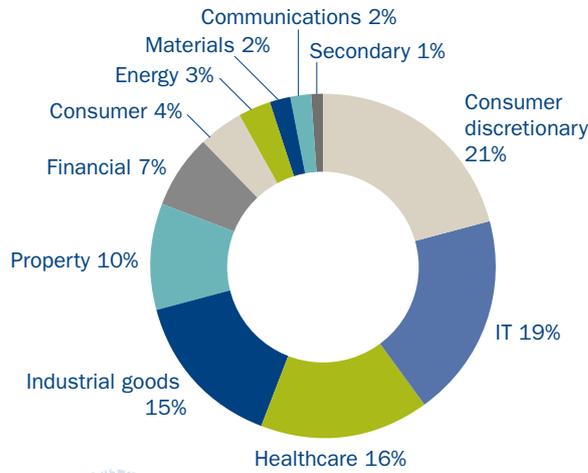
### Major fund investments



### Major direct investments



### Industrial sector



### Geographic distribution of Sixth AP Fund's investments



ment organizations that are active in the unlisted market. Co-investments are made with our funds in order to construct a direct portfolio with very low management costs.

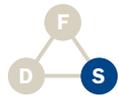
**HIGH LEVEL OF ACTIVITY IN 2016, WITH ALL TRANSACTION OPTIONS**

Over the last year, AP6 has demonstrated its success in making PE investments across a wide scope, within the boundaries of its focused strategy. It is a strategy based on collaboration, that combines fund commitments with direct investments. This wide scope is made possible via AP6's vast experience and accumulated expertise in both unlisted direct investments and fund commitments. It is an expertise that is highly sought after in the local and international collaborations that characterize the industry.



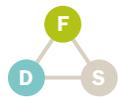
**FUND INVESTMENT CO-INVESTMENT: NORDIC CAPITAL**

AP6 made its first fund commitment to Nordic Capital in 1998. Through the years, close collaboration has been established, where AP6 has thus far participated as investor in six funds. And, now it has expanded to also include co-investments. In 2016, AP6 co-invested in Nordic Capital's acquisition of ERT, a global company offering digital solutions in such areas as patient treatments and complex clinical trials. This was the third time that AP6 co-invested with Nordic Capital. In 2014, a similar co-investment was made with Lindorff, a European supplier of credit management services.



**SECONDARY: SECOND AP FUND**

In 2016, AP6 conducted a secondary transaction whereby it acquired secondary fund units in three of Nordic Capital's existing funds from Second AP fund. With this type of transaction, the ability to evaluate the underlying portfolio companies is of utmost importance. This is expertise that AP6 has acquired via its extensive experience in direct investments, and where benefits are also derived from the close collaboration that has been established with Nordic Capital over a long period of time.



**FUND INVESTMENT CO-INVESTMENT: CINVEN AND PERMIRA**

In 2016, new collaborations were entered into with leading international PE funds. For example, AP6 participated as investor in Cinven's and Permira's most recent funds. These are new collaborations for AP6 and they result from an in-depth dialog and comprehensive evaluation efforts. During the year, these two funds also jointly acquired the Polish online auction site, Allegro. In conjunction with this, AP6 participated as co-investor in both Cinven's and Permira's funds, respectively. It is an interesting investment opportunity, which would not have been possible without close collaboration with other PE investors.



**FUND AND DIRECT INVESTMENTS IN SECONDARY MARKET: ALPINEVEST**

The global secondary market is dominated by highly specialized players. Collaboration with Alpinevest has been set up in order to come in closer contact with this market. During the year, AP6 invested in their Global Secondary Fund. Besides good return possibilities, AP6 is acquiring expertise in the secondary market and it is able to actively participate as co-investor in specific deals. One such secondary co-investment was conducted with Alpinevest already in 2016.

**GOOD RESULTS FROM 20 YEARS OF ACCUMULATED EXPERIENCE**

The activities described above are just some examples of the intensive investment efforts of 2016. With its vast experience and high level of expertise in both direct investments and fund investments, AP6 is able to participate in a wide variety of PE investment opportunities. Without own direct investment expertise, it is extremely difficult to establish close collaboration with private equity funds. There is some level of competition, however, in virtually all interesting investment opportunities. Access to capital is very good. Being a highly professional, contributing partner is necessary in order to have access to the most successful players and their investment opportunities. AP6 achieves this through its unique, in-depth expertise in both direct investments and fund investments. The collaborative approach provides full leverage on this expertise and is a very effective model for a manager of public pension funds.



# The year's investments

A result of the combined expertise and experience of AP6 employees.



## AP6 CO-INVESTS...

...in **kfzteile24**, which is a leading re-seller of parts and accessories for cars in Germany. It is a co-investment with **EQT Mid Market**, where AP6 is also an investor in the fund.



## AP6 CO-INVESTS WITH NEW PARTNER...

...in **Atos Medical**, a world-leading manufacturer of medical devices for patients who have undergone surgery for cancer of the larynx. It is a co-investment with **PAI Partners**.



## AP6 CO-INVESTS...

...in **ERT**, which is a global provider of digital solutions for patient surveys and clinical studies. It is a co-investment with **Nordic Capital VIII**, where AP6 is also an investor in the fund.



## AP6 COMMITS CAPITAL TO NEW FUND...

...**TDR IV**. TDR is a well-established European private equity fund in the segment of mid-market buyouts.



## AP6 COMMITS CAPITAL TO NEW FUND...

...**HgCapital VIII**, which provides specific exposure to pan-European TMT and services companies focused on software services



## AP6 COMMITS CAPITAL TO NEW FUND...

...**Alpinvest Secondary Fund VI**, which is a private equity investor in the global secondary market.



## AP6 CO-INVESTS...

...in **Sitecore**, which is a leading global software company with its head office in Denmark. The company delivers digital services. It is a co-investment with **EQT VII**, where AP6 is also an investor in the fund.



## AP6 COMMITS CAPITAL TO...

...**Creandum IV**. Creandum is a Nordic private equity fund with a focus on investments in venture capital.



## AP6 COMMITS CAPITAL TO NEW FUND...

...**CGS IV**. LGT is a private equity investor focused on the global secondary market.



## AP6 COMMITS CAPITAL TO NEW FUND...

...**Atomico IV**. Atomico is a private equity fund with strong Nordic ties and a focus on investments in venture capital.



## AP6 CO-INVESTS IN SECONDARY TRANSACTION...

...In **Eurazeo Capital II**, a leading French private equity fund. It is a co-investment with **Alpinvest Secondary Fund VI**, where AP6 is also an investor in the fund.





**AP6 COMMITS CAPITAL TO...**



...**EQT Mid Market Europe**. The fund is focused on companies with a strong market position and growth potential.

netcompany



**AP6 CO-INVESTS IN...**

...**Netcompany**, a leading Danish IT supplier. It is a co-investment with **FSN Capital IV**, where AP6 is also an investor in the fund.

FläktGroup

Triton

**AP6 CO-INVESTS...**

...in the combined unit **Fläkt Woods Group and DencoHappel**, which, together, act as a competitive player in the European ventilation industry. It is a co-investment with **Triton IV**, where AP6 is also an investor in the fund.



**AP6 COMMITS CAPITAL TO NEW FUND AND CO-INVESTS...**

...in **Bygghemma**, which is the leading e-trade company in the Nordic region as regards DIY and home decorating. It is a co-investment with **FSN V**, a new fund that AP6 has committed capital to.



Cinven



**AP6 COMMITS CAPITAL TO NEW FUND AND CO-INVESTS...**

...in **Allegro**, one of Poland's leading internet trading places with over 14 million monthly transactions. It is a co-investment with **Permira VI and Cinven VI**, two new private equity funds, where AP6 is also an investor in each fund.



**AP6 CO-INVESTS...**

...in **Kuoni**, which is a leading global supplier of travel-related services. It is a co-investment with **EQT VII**, where AP6 is also an investor in the fund.



**AP6 MAKES SECONDARY ACQUISITION...**

...of fund units at **Nordic Capital (V, VI and VII)**.



**AP6 CO-INVESTS IN...**

...**Evidensia**, a leader in animal health in the Nordic countries and northern Europe. With the acquisition of IVC, the company gains access to the UK market. It is a co-investment with **EQT VI**, where AP6 is also an investor in the fund.



**AP6 COMMITS CAPITAL TO...**

...**Cubera VIII**. Cubera is a leading Nordic secondary player.



**AP6 COMMITS CAPITAL TO...**

...**Intera III**, Intera Partners is a Finnish buy-out operator making majority investments in companies active in Finland and Sweden.

Northzone

**AP6 COMMITS CAPITAL TO...**

...**Northzone VIII**, Northzone is a Nordic PE fund specializing in investments in technology and venture capital.



**AP6 MAKES ADDITIONAL CO-INVESTMENTS...**

...in **Sivantos**, a leading global manufacturer of hearing aids. AP6 has co-invested in Sivantos in the past. That as well was a co-investment with **EQT VI**, where AP6 is also an investor in the fund.

1

**Private equity funds:** 14 private equity firms were included in the evaluation. The results of the evaluation are confidential.

**ESG Policy:** Existence of specific governing documents for responsible investment.

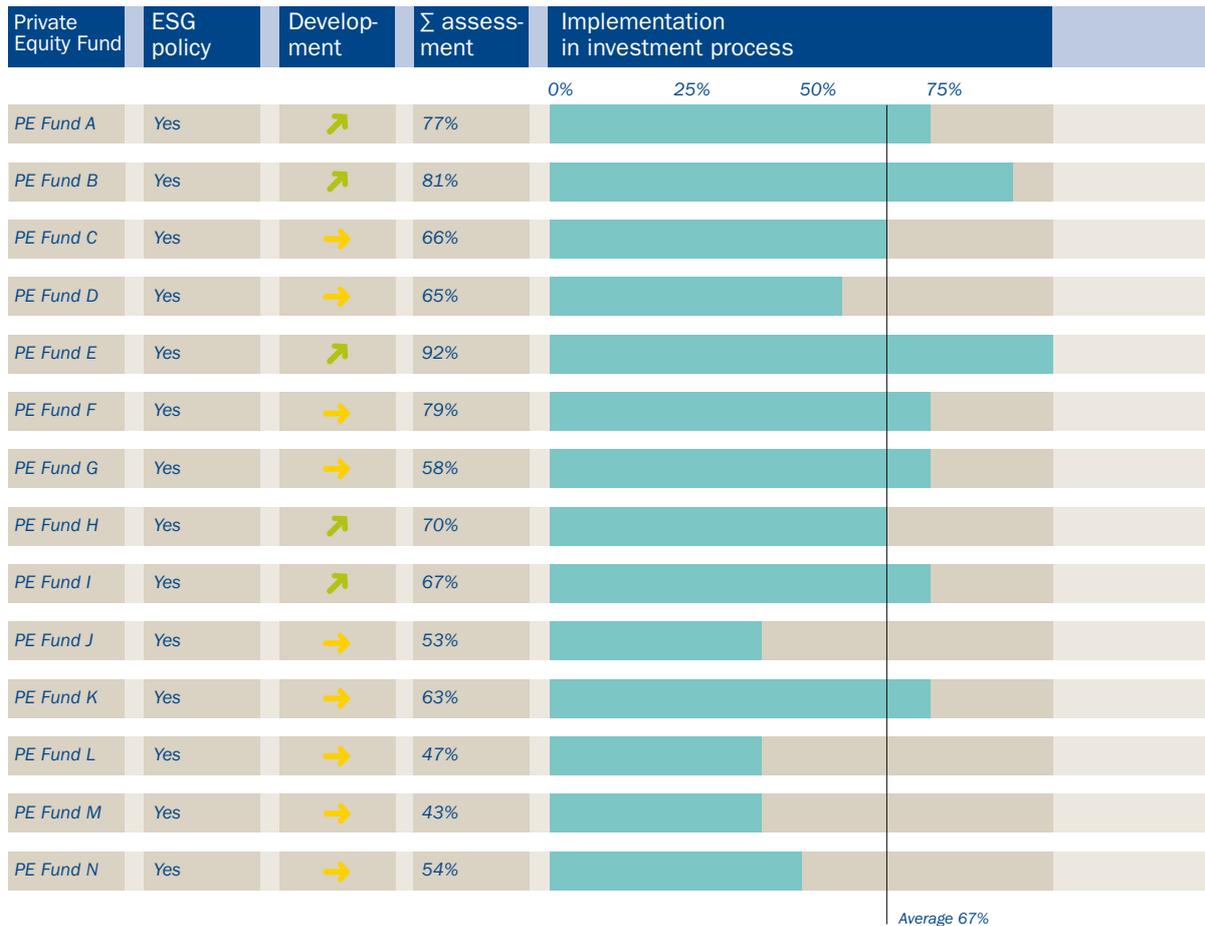
**Development:** Change in assessment since last year

- ↗ Improvement
- No change
- ↘ Deterioration

**Σ assessment:** Overall assessment of three modules as % of highest possible score

**Clarification on average for portfolio:**

The average for the AP6 portfolio is estimated to be higher than the average for a global private equity portfolio. To a large extent, this is explained by the fact that the AP6 portfolio primarily consists of funds managed by large Nordic and European investment teams, which have a more advanced approach to responsible investments. It is not possible to make any general conclusions from the fact that the average for the first two modules is the same (67%), but it does indicate that active efforts are directed at both acquisition and ownership.



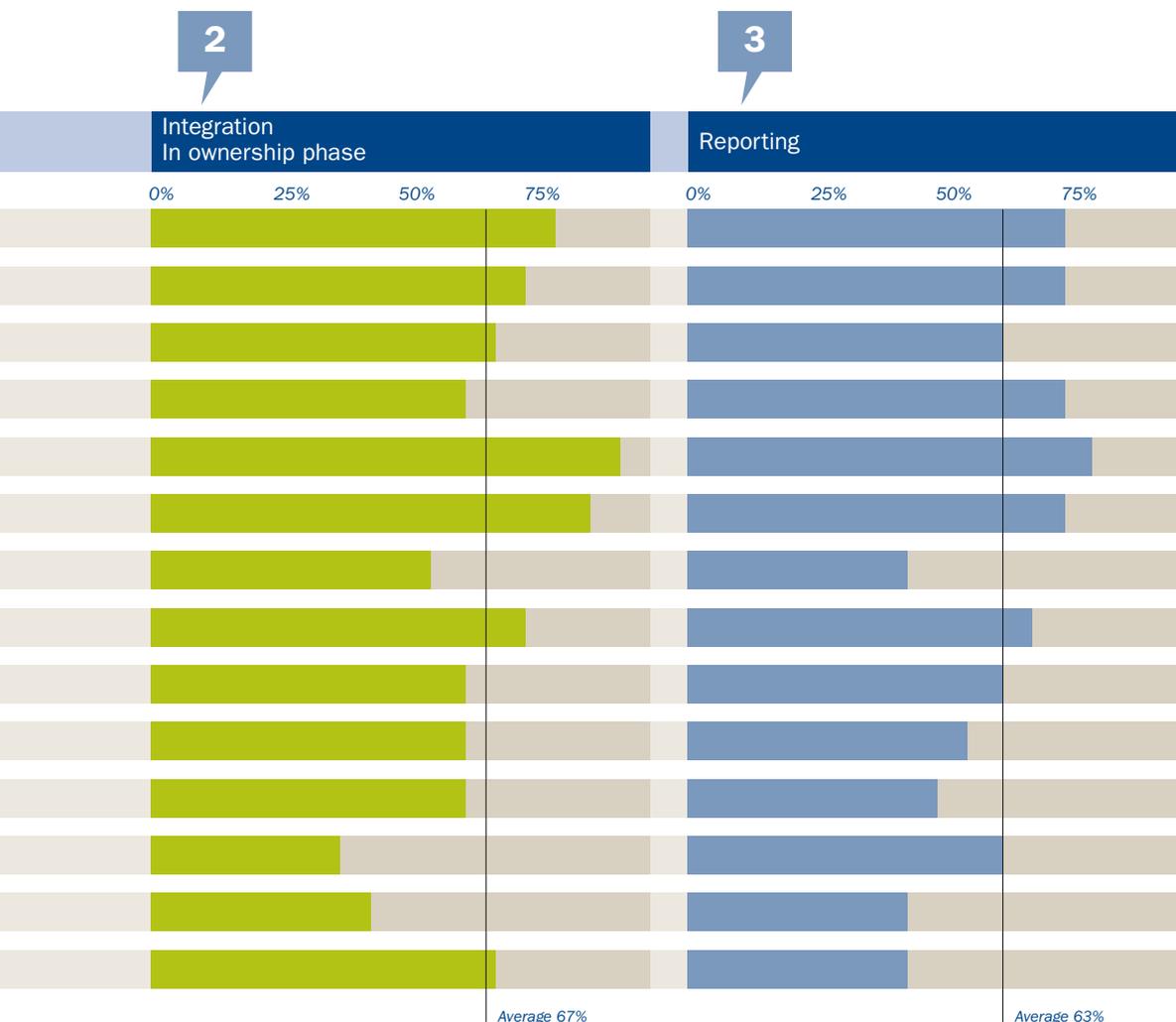
# Effective model for evaluating ESG in private equity funds

**SUSTAINABILITY >>** AP6’s annual follow-up on sustainability of the portfolio’s fund investments, is an important part of responsible investing. The results show that all of the funds in the portfolio have an established process for responsible investments. This is driven by both investor requirements and the business benefits. This year, feedback to each specific fund has been more specific. This is in line with the desires and demands of both AP6 and the various funds.

Since 2014, AP6 has been using its own template for sustainability evaluation and follow-up on private equity firms. The aim is to document the extent to which private equity firms are meeting AP6 requirements on sustainability and responsible investments. The tool was reviewed in 2016. The purpose was to adapt it to the template for reviewing

sustainability that was launched by the industry at the end of 2015, as an initiative by PRI. Its purpose is to, for both investors and private equity funds, facilitate the formulation of relevant requirements and demands on sustainability issues. Without this type of structure, they can become too numerous and diffuse.

“The process became much easier for us when we were able to link our evaluation to a tool that was developed with much support from the industry. We feel confident that our evaluation is relevant and in line with good industry practice. We also believe that the strong level of support from the industry has resulted in greater understanding for the issues we raise, and that it has



**1.** How does the private equity firm review sustainability-related risks and opportunities prior to acquisition? What processes and resources are used? How is the investment decision impacted by sustainability factors?

**2.** How do private equity firms manage the portfolio companies' sustainability-related risks and opportunities for value creation during the holding period? This is done, for example, through corporate governance and specific support on sustainability.

**3.** How does the PE Fund report sustainability and responsible investments? Through, for example, public reporting and regular reporting to investors.

also made it easier for private equity firms to prioritize among investors queries,” says Anna Follér, Sustainability manager at AP6.

Roughly speaking, for indirect investments in funds, there is an investment phase and an ownership phase. First, comes an evaluation of the private equity fund prior to making an investment. Once the investment has been made, regular follow up occurs in the form of quarterly and annual reports, annual investor meetings and advisory board meetings. As regards responsible investments and sustainability, AP6 has decided to conduct specific follow up on an annual basis.

AP6’s evaluation tool is based on interviews and documentation that has been received. The approach to responsible investment throughout the investment process, is then rated. Areas that are specifically reviewed are, for example, how the fund’s investment team identifies and evaluates relevant sustainability issues in conjunc-

tion with company acquisition. Another important factor is the related actions of the private equity fund after the investment has been made, along with support to the portfolio companies as regards access to sustainability expertise, templates and tools, or networks for exchanging knowledge and experience on sustainability. How a private equity fund reports on sustainability, both publicly and specifically to investors, is also reviewed and rated.

“We want to be sure that the funds we invest in meet our standards for making an investment, and that afterwards, they continue to live up to external requirements and expectations. As important as making an evaluation prior to investment, is an ongoing evaluation and follow up during the entire lifespan of the fund,” says Anna Follér.

The overriding conclusion from the 2016 sustainability evaluation is that all of the funds that were included are actively

addressing sustainability issues, which are developed and improved over time. The major differences in level of maturity when dealing with ESG are to be found between large and small teams as well as between investors in mature companies vs investors in early stage. These differences impact how advanced the approach to sustainability is.

In the limited sampling represented by the AP6 fund portfolio, leading funds are characterized by a combination of formalized processes, like standardized introduction programs and training on sustainability, along with solid internal sustainability skills.

“Annual follow-up enables us to monitor private equity firms over time. We are also able to serve as a sounding board due to such dialogue-based evaluation and the subsequent feedback. It is something that the private equity funds value very much. Our collaboration deepens in way that is beneficial to both parties and to the invested capital,” says Anna Follér.

# Carlyle's ESG work benefits customers and companies

**INTERVIEW>>** *Carlyle is a global investor with USD 169 billion under management. The scope and variation of the portfolio, across many types of companies, is wide. Accordingly, it places high demands on the work with sustainability issues. As Chief Sustainability Officer, Jackie Roberts is responsible for implementing change across the entire organization. Evaluation and feedback are just one example of what this involves. She sees many advantages with the AP6 model for evaluating the sustainability efforts of private equity funds.*

**C**lear concrete feedback from our partners is incredibly important to us. Seeing how we compare to others, on a relative scale, is useful information. It's not an exact science, but that's not what is important here. It does, however, give us something that we can relate to," says Jackie Roberts, Chief Sustainability Officer for The Carlyle Group.

Requirements and expectations on the sustainability efforts of private equity funds are becoming more and more stringent. Selecting the issues that can generate lasting improvements in the area of sustainability is a challenge to both LPs\* and GPs\* alike. For several years now, AP6 has been working with its own model designed specifically for the purpose of evaluating private equity funds (see pages 12-13).

"We focus on a number of key areas like the investment process, active ownership and reporting. Evaluation is done on an annual basis, so that we can monitor how a fund develops over time. And, we recently implemented a way of providing more concrete feedback to each private equity fund," explains Anna Follér, Sustainability Manager at AP6.

The evaluation results are confidential, but each private equity fund, like Carlyle for example, is shown how they compare to the average for the AP6 portfolio. It's yet another important tool, among the many, that Jackie Roberts uses in her work.

"The AP6 evaluation model enables us to see how the effect of our own actions are

▶ Customized sustainability projects, where the commercial value is perceived as being relevant, have the greatest potential of realizing improvements," explains Jackie Roberts, Chief Sustainability Officer at The Carlyle Group.



perceived and assessed. It also gives us an indication of where we stand, compared to AP6's other funds. Of course, we need to keep in mind that we differ, in many aspects, from those we are being compared with. Nevertheless, this type of comparison is constructive and valuable," says Jackie Roberts.

One of Carlyle's companies had expanded and needed to find new suppliers who could handle the growing demand. Major customers also requested that the company integrate climate-related risks into the business plan and Jackie Roberts helped include these risks as a component of the evaluation. As a result, the company learned that some of its suppliers had operations in areas exposed to a high risk of flooding. The selection of

new suppliers in other regions helped the company avoid the risk of production losses due to floods and other disruptions, which meant a new kind of consideration for the company. All in all, it was possible to take action that would improve delivery reliability to customers, even in difficult circumstances. Jackie Roberts was able to congratulate the company for having implemented its first climate risk analysis. It was something that they had not been fully aware of.

"They were a bit surprised, and they realized that the method for conducting climate risk analysis was very useful and should be included in continuity planning. They understood how many similarities there were to the risk analyses regularly conducted in other areas," explains Jackie Roberts.

\*Limited Partner/Investor \*General Partner/PE Fund

The analysis, which initially came about due to the request of a client, provided further insight into the concrete benefits of including climate-related risks in future analyses. Management also gained more confidence and interest in coming to grips with additional aspects of sustainability.

“It’s an excellent example of how, as owner, you can demonstrate both the value and necessity of sustainability issues,” says Anna Follér.

The AP6 evaluation model lists several criteria for reporting, without specifying any particular reporting standards.

But, AP6 encourages sustainability reporting for both the funds themselves and the portfolio companies. At present, there is wide variation in how the various private equity funds report on sustainability. It depends on such things as fund size, team size, geography and investment focus.

“General partners have different ways of working with sustainability issues and we need to respect that. But AP6 is clear about its requirements and expectations. Each GP must adapt to that and other requirements in the market,” says Anna Follér.

For Carlyle, the emphasis is on prioritizing and focusing on specific issues. Experience shows that this type of approach can be decisive in fueling change and increasing awareness, both within the investment organization and the portfolio companies.

Improvements to energy efficiency is one focus area for Carlyle, along with providing answers to customers’ growing concerns about sustainability. Many opportunities exist in this area for the companies in Carlyle’s portfolio, as regards such things as cost savings, development of new products, efforts to improve the brand, consumer and customer requirements, innovation and business concepts.

“You must prioritize. Otherwise, the number of issues can get out of hand. And when that happens, you risk getting bogged down. You need to be brave and focus on what’s important. And to do that, you must exclude certain issues which, at first glance, seem like they’d be nice to have,” says Jackie Roberts.

In her role as Chief Sustainability Officer at Carlyle, she relies on her vast experience



▲ The more concrete feedback there is between LPs and GPs, the better. Anna Follér and Jackie Roberts discussed the importance of clarity when they met in Stockholm.

of companies in a variety of industries. It enables her to more easily identify and raise sustainability issues. This covers everything from informing companies that their customers have joined CDP, to educating them on the link between customer satisfaction and sustainability. It all starts to make sense when a company realizes that lower energy use or more efficient packaging can actually have a positive impact on customer loyalty.

“Customers buy goods because they need them. However, many are also asking their

suppliers to lower their carbon footprint, or are choosing to do business with companies which, in one way or another, are involved in similar efforts.

Usually, the first step is to create awareness. After that, the company starts taking action itself, along with measuring and reporting on sustainability,” explains Jackie Roberts.

The scope of Carlyle’s global investment activities covers many companies specialized in a particular niche. Accordingly, it places high demands on the work with sustainability. There is a risk of adverse effect if actions or reporting templates are to general or broad.

“Companies in this category need a working method for sustainability that involves customized projects. The commercial value must also be perceived as highly relevant. If you meet these criteria, there are no limits on what you can accomplish,” says Jackie Roberts.

Sustainability work in a global enterprise, with many types of companies, is incredibly complex, which increases the need for feedback from all investors, not just AP6.

“Feedback is important to us. Even though the figures I receive from the AP6 evaluation are based on comparisons to private equity funds with a different focus and size, it’s still valuable information that helps us improve our own sustainability efforts,” says Jackie Roberts.

## Facts

**The Carlyle Group** is a global asset manager with USD 158 billion under management in 281 funds and fund of fund (FOF) investments. Carlyle was founded in 1987 and it is currently one of the world’s largest investors in its line of business, with more than 1,600 employees in 35 offices located in Africa, Asia, Australia, Europe, Middle East, North America and South America.

**Jackie Roberts** is Chief Sustainability Officer for The Carlyle Group. She is based in Washington, DC. Prior to that, she worked for 17 years at Environmental

Defense Fund, where she headed an initiative with NGO-Business Corporate Partners, the first ever of its kind. She also headed Sustainable Technologies and was Senior Director of the Climate and Energy Idea Bank. She attended Harvard Business School and worked as an engineer at US EPA: United States Environmental Protection Agency. Roberts holds a B.S. in chemical engineering from Yale University, an MBA from the Yale School of Management, and a Masters in environmental studies from the Yale School of Forestry and Environmental Studies.

# Five years of successful specialization

**D**uring my first year as Chairman of Sixth AP Fund (AP6), the Board of Directors decided on a new strategy for investment activities. It was made on the basis of an analysis of historic returns and an assessment of future return potential.

With this strategy in place over the last five years, AP6 has invested directly and indirectly via funds in mature, unlisted companies. Direct investments are ideally made together with other established financial and industrial players.

All of it, with the aim of meeting the legal requirements on long-term high returns.

In that context, it is worth mentioning that AP6 can proudly look back on 20 years of experiences as an investor in unlisted assets. The Board's decision from 2011 was aimed at strengthening and sharpening this expertise further.

With the Board and organization acting in accordance with this decision over the last five years, it feels right to draw some conclusions and highlight some of the results thus far.

I am both happy and proud of the fact that, over the last five years, AP6 has become even more specialized as an investor in unlisted assets.

AP6 utilizes its dual expertise in making direct investments in companies and conducting fund investments. Doing so creates competitive advantages that make various types of collaborations possible, they in turn, building on AP6's vast experience in transactions.

This is evident in AP6's excellent standing amongst the growing competition in the market for unlisted investments.

New partnerships have been initiated with several of the most sought-after funds. Thanks to its position, AP6 has, in competition with others, been able to participate in



and conduct a large number of transactions.

An expected consequence of the new strategy has been a higher volume of international investment activities. The reason is, that those identified as most interesting based on potential returns, have a local presence in both the Swedish and Nordic markets, as well as internationally.

A higher level of international investment activities is advantageous in that it helps us meet the legal requirement on satisfactory risk diversification.

The Board's decision on a new strategy in 2011 has involved the construction of a new portfolio, and realignment of the existing one. This has been done via divestiture of holdings that were not in line

with the new, long-term direction, or, where the concentration risk was deemed as being too high.

The Board's decision on a new strategy in 2011, and the organization's success in implementing it, has yielded a working model that leverages AP6's experience and enables flexibility for adapting to changes in the unlisted market.

Gothenburg, February 2017

Ebba Lindsö  
*Chairman of the Board, Sixth AP Fund*

# Sustainability Report

*For AP6, sustainability and responsible investments go hand-in-hand in our efforts to meet the goal of providing a long-term high return to future pensioners. Sustainability is a broad concept that includes environmental, social and economic sustainability. AP6's starting point for sustainability is the UN Global Compact's ten principles for human rights, labor law, environment and anti-corruption, in addition to the UN's six principles for responsible investment (PRI).*

*The AP6 Sustainability Report follows the Core Level of the Global Reporting Initiative (GRI G4), focusing on describing the most material aspects of AP6's particular operations. Since the 2013 financial year, AP6 has published a sustainability report as a component of the annual report. With this report, AP6 takes yet another step towards integrating the sustainability report into the annual report, which is entirely logical, since sustainability is an integral part of AP6's operations.*

## Responsible Investments

**A**s a fund manager in charge of national pension fund assets and as a government agency, AP6 is expected to be a forerunner when it comes to ethics, sustainability and responsible investments. AP6 aims to generate a return for the Swedish pension system by making sustainable and responsible investments. This means that AP6's investments in unlisted companies must be able to grow and generate returns through efficient use of resources, minimal impact on the environment and by promoting a sustainable development of society and fair labor standards.

AP6 does not see any conflict between sustainable investment and the required return; on the contrary, AP6 views sustainability as a precondition for a long-term high return. *For more information on AP6's investment strategy and portfolio, please see pages 6-9.*

As a state-owned investor of pension fund assets, AP6 has both the responsibility and opportunity of putting requirements on

sustainability when making its investments and must never act in a way that risks harming public confidence in its ability to manage pension funds. AP6 is a signatory of the UN Principles for Responsible Investment (PRI) and in accordance with that, it has integrated sustainability into the investment process and corporate governance.

Sustainability efforts are based on the Code of Conduct (see page 18) that has been adopted by the Board of Directors and which covers responsible investments and overall guidelines for the organization. During 2016, there was particular focus on two areas: gender and diversity, as well as climate.

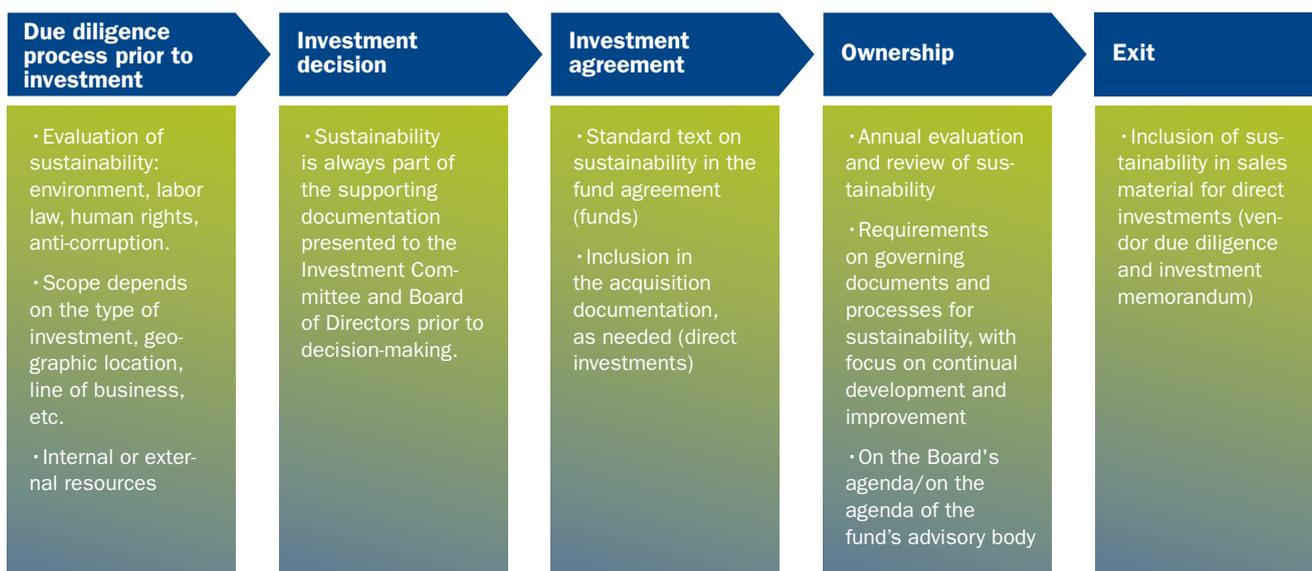
### **Investment process**

Each investment project includes a thorough due diligence process, which involves a review of the commercial, financial, legal and sustainability factors. This is done using internal resources together with special consultants and experts to ensure that all queries are addressed. Depending on the

type of potential investment targets, physical site visits may also take place, in order to give AP6 an idea of e.g. the working environment and production set-up. There is an ongoing dialogue on the project's status and conclusions from the due diligence process are communicated to the investment team, headed by the manager for Direct Investments or Fund Investments. The aim is to evaluate whether the investment is in line with AP6's investment strategy and if it meets the requirements on return and sustainability. AP6 does not engage in negative screening, i.e. automatically ruling out certain sectors.

Nevertheless, there are some lines of business that are excluded, de facto. These include, for example, weapons manufacturing and pornography. In all lines of business, there are sustainability challenges covering a range of topics and with varying degrees of severity. Sometimes, the severity is deemed too high for being able to motivate an investment. In other instances,

**Sustainability is an integral part of AP6's investment activities and how it generates value**



value-generating opportunities are identified, which are possible to achieve through governance and processes for sustainability.

Respect for international standards on human rights, anti-corruption, labor law and environmental issues is an obvious requirement for all investments made by AP6.

Through a successive process of elimination, a limited number of projects are forwarded to the Investment Committee and AP6's Board of Directors, which have final decision-making authority. Sustainability is always part of the supporting documentation presented to the Investment Committee and Board of Directors prior to decision-making. An investment decision also serves as the foundation for continued sustainability efforts.

**Fund investments** – When an investment agreement has been signed, it marks the beginning of an ongoing relationship, where requirements and monitoring are prioritized. *For more information on the ongoing dialog and evaluation of private equity funds' sustainability efforts, see page 12.*

**Direct investments** – AP6 applies a corporate governance process that is based on its Code of Conduct and where the point of departure is the due diligence that was carried out during the investment process. An ownership plan is drawn up, aimed at describing how AP6 will generate a long-term sustainable growth in value. AP6 is usually

one of several owners to its holdings. This means clear and continuous communication with the other owners of the holdings is an absolute necessity. Close ties with senior management and management teams is critical in order to be able to have an impact and monitor sustainability efforts.

AP6 uses ownership dialog to ensure compliance with its Code of Conduct. This serves as a compass for all decisions affecting AP6 and its investing activities. A key part of corporate governance is appointing a professional board of directors. AP6 employs a broad approach to the recruitment of board members. This entails creating a mix of specialist expertise, focus on sustainability, gender distribution and diversity. The latter is defined from a perspective that includes ethnic background, gender, experience, age and education/training.

AP6 requires that all directly owned companies of significance must have a code of conduct or a sustainability policy. By the end of 2016, 100 percent of the companies had fulfilled this requirement. The specific sustainability issues that each company works with depends on, for example, their line of business, geographic location and size. The investment managers continuously monitors progress with the management of each company. They also keep a close eye on the ownership plan for each investment. Each year, Direct Investments specifically

follows up on sustainability, using its own template designed for that purpose. No sustainability-related incidents were reported in 2016.

**Sustainability goals**

Sustainability goals for the investment portfolio are adopted by and reported on, annually, to the Board of AP6. It is the responsibility of each board to address sustainability in the portfolio companies. AP6's responsibility, as an active owner, is to ensure that, for directly owned companies, there is a board of directors that includes sustainability in strategic work. For private equity funds, it is necessary to have resources that support the fund team and the funds' portfolio companies in their efforts to address sustainability.

AP6's target for Direct Investments is that holdings equivalent to 80 percent of the value in the portfolio should report in line with GRI or similar reporting guidelines. At the end of 2016, company investments equivalent to 38 (56) percent of the value in AP6's portfolio had reports in line with GRI or similar reporting guidelines. The decline is a due to the major changes that have been made to AP6's portfolio.

AP6's target for Fund Investments is for holdings equivalent to 80 percent of the value in the portfolio to report in line with PRI or similar guidelines. At the end

of 2016, fund investments equivalent to 45 (48) percent of the value in AP6's portfolio reported in line with PRI or similar.

### Code of Conduct

AP6's sustainability efforts are based on its Code of Conduct. For employees, partners and holdings, it describes the values that apply to the entire organization. The Code of Conduct is communicated to these groups. All employees must sign a document stating that they have read and will adhere to it.

*Read more about the Code of Conduct at [www.apfond6.se](http://www.apfond6.se).*

### Whistleblower

Deviations from the Code of Conduct (suspected irregularities) can be reported anonymously in the AP6 web-based whistleblower system. Anonymity is guaranteed by the system. The information is dealt with by the Managing Director and Deputy Managing Director.

### Partnerships and memberships

AP6 is a member of several trade associations that gather, develop and disseminate knowledge and experience of sustainable enterprise and responsible investment. Through its memberships, AP6 can help bring ensure and promote certain issues. AP6 also has a sustainability partnership with the School of Business, Economics and Law at the University of Gothenburg. It also has a partnership on diversity with the Stockholm School of Economics.

### Commitments, affiliations

UN Global Compact, UNGC, [www.unglobalcompact.org/](http://www.unglobalcompact.org/)

UN Principles for Responsible Investments, UNPRI, [www.unpri.org](http://www.unpri.org)

CDP (tidigare Carbon Disclosure Framework), [www.cdp.net](http://www.cdp.net)

### Memberships

Invest Europe (tidigare European Venture Capital Association, EVCA), [www.investeurope.eu/](http://www.investeurope.eu/)

Institutional Limited Partners Association, ILPA, <http://ilpa.org/>

Swedish Private Equity & Venture Capital Association, SVCA, [www.svca.se/](http://www.svca.se/)

SWE-SIF, [www.swesif.org/](http://www.swesif.org/)

### Long-term goals for direct investments (selection)

Area	Goals	Status
<b>Sustainability analysis as part of due diligence</b>	100% of all investments	100 %
<b>Code of Conduct</b>	Must be in place at all significant holdings	100 %
<b>Sustainability Report</b>	Companies corresponding to 80% of the value in the portfolio for direct investments must report in line with GRI or similar reporting guidelines	38 %
<b>Gender equality</b>	The proportion of women on boards of portfolio companies should be 50%	14 %

### Long-term goals for fund investments (selection)

Area	Goals	Status
<b>Sustainability analysis as part of due diligence</b>	100% of all investments	100 %
<b>Code of Conduct</b>	Must be in place for all significant holdings	100 %
<b>Sustainability Report</b>	Funds corresponding to 80% of the value in the portfolio for fund investments should report in line with PRI or similar reporting guidelines	45 %
<b>Equality/diversity</b>	AP6 will take steps to ensure that equality is a measurable objective for funds and portfolio companies	Page 23

## PRI's annual evaluation of AP6's sustainability efforts

AP6 became a signatory of the UN Principles for Responsible Investment (PRI) in 2012. After the first year's grace period, AP6 has, each year, reported on its responsible investment activities to PRI. The reports follow a specific framework, which is divided into modules that are applicable depending on the investment strategy, organization's size, etc. The reports are public and available on the PRI website.

Since 2015, PRI also compiles a confidential evaluation report based on each organization's reported data. The purpose is to provide feedback on how each organization's work evolves over time and in comparison with similar organizations.

AP6 reports on three modules: Strategy and governance; indirect investments, direct investments and active ownership. Responses are rated on a scale ranging from E to A+. The other two

modules are grouped by type of asset and AP6 only reports on private equity.

**In the latest evaluation report (based on AP6's PRI reporting from 2015), AP6's work with responsible investments received the ratings of A, A and B for its three modules: strategy and governance; indirect investments in private equity investment funds; and direct investments and active ownership in unlisted companies.**

**"We are very happy that our work with responsible investments in the unlisted portfolio has received such high ratings. Nevertheless, much remains to be done. Above all, PRI's evaluation is a very valuable tool that we use in our efforts to continually develop and improve in the area of responsible investments"**

*Anna Follér,  
Sustainability Manager at AP6*

## Climate change assessment

*Climate change has remained one of the focus areas of AP6's sustainability efforts in 2016. During the year, AP6 integrated climate change into its evaluation and follow-up. For the third year in a row, AP6 has measured the carbon footprint of the fund's unlisted investments. AP6 strives to increase understanding within the organization about the climate-related challenges in the portfolio. It also strives to increase transparency on unlisted companies' carbon emissions and contribute to a greater awareness of climate-related risks and opportunities in the private equity industry.*

**T**his is the third time that we are measuring carbon footprint of the portfolio. We have now become much better at gathering information in a structured manner, which was a challenge during the first year. We still lack adequate information on the carbon emissions of unlisted companies, but we have noticed that an increasing number of private equity funds are requiring measurement of, and reporting on, carbon emissions. Transparency will increase over time," says Anna Follér, Sustainability Manager at AP6.

AP6's investment portfolio consists of investments in unlisted companies, both directly and indirectly through funds\*. The latter, in turn, invest in unlisted companies. Compared to listed companies, it is not as common for unlisted companies to report their carbon emissions. To a certain extent, it is due to a lower level of public reporting. Furthermore, unlisted companies face different sets of requirements (from their owners, consumers, interest groups and other stakeholders) when it comes to measuring carbon emissions. Because it is relatively unusual for unlisted companies to report their carbon emissions, access to such information is limited. For major listed companies, it is common to measure and report carbon dioxide emissions, along with reporting the climate-related risks, related measures and action plans.

In order to report the carbon footprint of AP6's investment portfolio, reported



information on the portfolio companies' carbon emissions was combined with the estimated carbon emissions, using the same method as in prior years. South Pole Group was once again engaged to carry out the analysis together with internal resources within AP6.

During the year, AP6 also participated in creating A Guide on Climate Change for Private Equity Investors, which was a collaborative effort with other investors, Institutional Investors Group on Climate Change (IIGCC) and Principles for Re-

sponsible Investment (PRI). The guidance is intended to raise awareness on climate-related risks and opportunities for investors in unlisted companies, while providing concrete tools for managing such risks and opportunities.

"For investors, climate change has a very broad scope. Measuring and reporting on carbon emissions is just one aspect. Physical climate risks, new legislation and adapting to an economy based on renewable energy sources can involve both risks and opportunities for investors. The guidance is intend-

\*The portfolio contains a limited number of holdings in listed companies. This is because some previously unlisted companies have now become listed.

ed as a way of applying an overall approach to climate change for the private equity industry. We hope that it will be widely accepted and used,” says Anna Follér.

**CARBON FOOTPRINT**

AP6 has measured the carbon footprint of 77 percent of the Fund’s capital employed as of 31 December 2016, using the latest available carbon data for direct emissions (Scope 1) and indirect emissions from energy (Scope 2).

Information that has been reported on carbon emissions has been collected from companies corresponding to 24 percent of the value of companies included in the calculation. Carbon emissions from another 76 percent have been estimated using models based on company size and industry.

10 percent of the total estimated carbon footprint was reported, while the remaining 90 percent of emissions was estimated using models based on company size and industry.

**MANAGING CLIMATE CHANGE IN PORTFOLIO COMPANIES AND FUNDS**

At year-end 2015, AP6 conducted a more qualitative climate analysis on how companies and private equity funds are managing the issue of climate change in their activities and investments. Results from the analysis are provided in the 2016 annual report.

For 2016, the qualitative climate analysis was included in AP6’s annual sustainability evaluation of companies and private equity funds. The aim was to integrate climate change into AP6’s existing processes and methods. Doing so, means that constant attention is now given to how private equity funds deal with climate-related challenges, over and above their ordinary efforts, both before and after investment.

The year’s sustainability evaluation of private equity funds in the portfolio was completed during the month of September. There is continued interest in climate change, which is fueled by investor demands, risk minimization and investment opportunities. Since the time of the last, more comprehensive qualitative climate analysis that was carried out at year-end 2015, several private equity funds have

become more active. They are now deciding to include CO<sub>2</sub> emissions as a mandatory reporting item for all portfolio companies. One private equity fund had assisted one of the portfolio companies in conducting a climate risk analysis of the supply chain. A couple of other private equity funds had measured the carbon footprint of their office activities.

“In this context, we must not underestimate the influence of the Paris Agreement on climate change. It was signed in

December 2015 and came into force in November 2016. It has raised the status of this issue, and clarified how countries, cities, companies and organization, working both independently and jointly, should tackle climate change. For unlisted companies and their investors, they have become aware that change is occurring here and now. They know that it affects both investments and ownership,” says Anna Follér.

**Carbon footprint 2016**

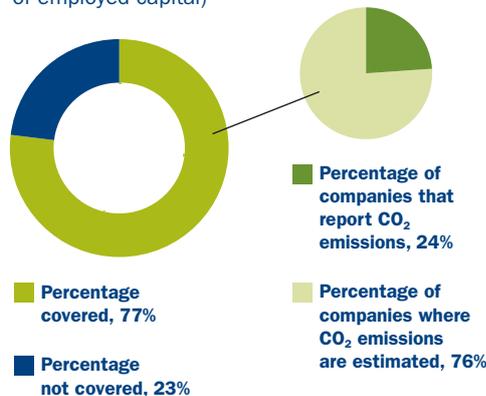


AP6’s carbon footprint shown as three indicators, compared with the carbon footprint of corresponding capital invested in a global equity index (MSCI World):

1. The absolute carbon footprint of the companies’ combined carbon emissions in proportion to the holdings in the equity portfolio (thousand tCO<sub>2</sub>e)
2. Carbon intensity shown as the absolute carbon footprint in relation to the share of the companies’ market value (tCO<sub>2</sub>e/SEK million)
3. Carbon intensity shown as the absolute carbon footprint in relation to the share of the companies’ sales (tCO<sub>2</sub>e/SEK million)

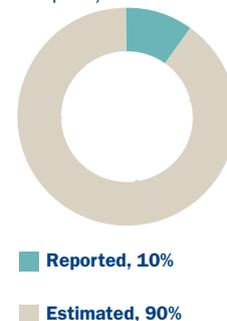
**Scope of carbon footprint**

(as a percentage of the value of employed capital)



**Percentage of reported and estimated CO<sub>2</sub> emissions**

(as a percentage of the absolute carbon footprint)

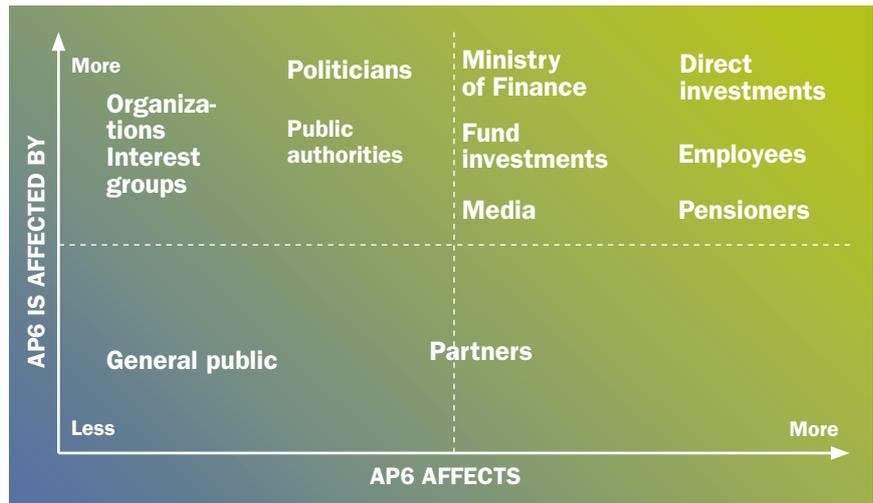


# Stakeholder engagement

## Focus on material issues

AP6's sustainability efforts are based on an analysis of the stakeholders and sustainability issues affected by the fund, and vice versa. Although environmental impact, labor conditions and business ethics are essential for the AP6 organization, the largest impact is via AP6's investments. A key aspect of investing activities involves taking sustainability into account throughout the investment cycle, in particular through active ownership. The materiality analysis is reviewed annually and updated based on feedback from external stakeholders such as owners, private equity funds, companies and NGO's.

AP6's key aspects and indicators are reported in a specific table on page 27.



### WOMEN'S FINANCE DAY

In conjunction with its annual finance day, the student union at Stockholm School of Economics invited women representatives of AP6 and the other AP funds to a meeting with the school's fe-

male students. The aim was to highlight women representatives and demonstrate the wide variety of options in the finance sector.

"To a large extent, students' expectations about a career in the finance sec-

tor are based on traditional views, which need to be updated," says Malin Källström Säfweräng, Investment Director at AP6. Second from left in the photo.

## Examples of AP6's interaction with stakeholders during the year

AP6's stakeholders (in alphabetical order)	Examples
<b>Direct investments</b>	<ul style="list-style-type: none"> <li>• Annual ESG assessment</li> <li>• Ongoing work on Boards of Directors</li> <li>• Personal meetings and site visits to evaluate ESG</li> </ul>
<b>Ministry of Finance</b>	<ul style="list-style-type: none"> <li>• Ongoing discussions</li> <li>• Annual assessment</li> </ul>
<b>Fund investments</b>	<ul style="list-style-type: none"> <li>• Annual ESG assessment</li> <li>• Ongoing involvement in the funds' advisory bodies</li> <li>• Fund AGMs</li> <li>• Personal meetings to evaluate ESG</li> <li>• Round table on equality and diversity (organized by AP6)</li> </ul>
<b>Non-governmental organizations (NGOs)</b>	<ul style="list-style-type: none"> <li>• Sustainability issues associated with investments</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>• Employee surveys</li> <li>• Career development discussions</li> <li>• Weekly staff meetings</li> <li>• Whistleblower function</li> </ul>
<b>Media</b>	<ul style="list-style-type: none"> <li>• General issues and discussions via telephone and email</li> <li>• Sustainability issues associated with investments</li> <li>• Questions about investment strategy</li> <li>• Questions related to updated information on external website</li> <li>• Requests for information, in accordance with the principle of public access to official documents</li> </ul>
<b>Public authorities</b>	<ul style="list-style-type: none"> <li>• Dialogue and exchange with departments and government authorities</li> <li>• Dialogue and exchange with AP funds</li> </ul>
<b>Pensioners and general public</b>	<ul style="list-style-type: none"> <li>• General issues and discussions via telephone and email</li> <li>• Sustainability issues associated with investments</li> <li>• Questions about investment strategy</li> <li>• Questions related to updated information on external website</li> </ul>
<b>Politicians</b>	<ul style="list-style-type: none"> <li>• Dialogue and exchange on issues related to AP6 and the buffer capital system</li> </ul>
<b>Venture capital</b>	<ul style="list-style-type: none"> <li>• Ongoing collaboration and dialogue via ILPA, Invest Europe and SVCA</li> </ul>
<b>Partners (e.g. Member organizations and collaboration with universities)</b>	<ul style="list-style-type: none"> <li>• Participation in various PRI projects, with focus on private equity</li> <li>• Participation in RAMP (integration project), Stockholm School of Economics</li> <li>• Annual reporting to and feedback from PRI</li> <li>• Networks and seminars</li> <li>• Presentations at universities, Stockholm School of Economics and School of Business, Economics and Law at the University of Gothenburg</li> </ul>



### AP6 HOSTED A SEMINAR ON DIVERSITY

One of the focus areas for 2016 was gender equality and diversity. AP6 works proactively with these issues via, for example, an ongoing dialog with private equity funds and portfolio companies, follow-up via annual assessments and participation in the RAMP project\*. When AP6 hosted a seminar on diversity, nine Nordic PE funds participated. Everyone was in agreement that progress must be made on increasing diversity in this sector. From left: Tomas Lindén (**EQT**), Lars Grinde (**Norvestor**), Hussam Al-Homsi (trainee AP6 RAMP), Maria Frithz Warg (**Stockholm School of Economics RAMP**), Anna Follér (AP6), Daniel Björklund (**Triton**), Margareta Alestig (AP6), Morten Welø (**FSN**), Katarina Janerud (**Nordic Capital**). Other participants: Therése Lennehag (**EQT**), Thomas Hofvenstam (**Triton**), David Zytomierski (**Accent Equity**), Tuomas Kahri (**Intera Partners**), Marta Sjögren (**Northzone**), Åsa Lindencrona (**Creandum**), Daniel Blomqvist (**Creandum**).

\*Rapid Acceleration Management Program. See page 25

# AP6's own sustainability efforts

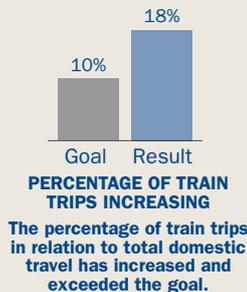
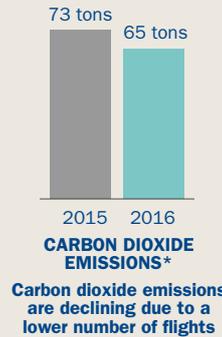
## Environmental and climate impact

For AP6's own operations, travel is the environmental impact that employees have the greatest opportunity of influencing. Rules and attitudes are described in AP6's guidelines. Travel should be planned and carried out so there is as little environmental impact as possible. AP6 has invested in video and telephone conferencing systems so the amount of travel can be reduced.

In 2016, the number of video conference meetings increased by 25 % compared to 2015, which exceeds the goal of a 10 percent increase on an annual basis. When it comes to AP6's premises in Gothenburg and Stockholm, both are green leases, which entail active environmental measures for both the tenant and the landlord.

### ✓ 11 PERCENT DECLINE IN CARBON DIOXIDE EMISSIONS

### ✓ NUMBER OF DOMESTIC FLIGHTS CUT IN HALF



AP6 diligently strives to lower its impact from travel, since it is responsible for 97 percent of the organization's own carbon emissions. The aim is to replace air travel (primarily domestic) with rail and/or video conferences, to the extent possible.

For the last couple of years, the goal has been to increase train travel, in relation to total domestic travel, by 10 percent per year. That goal was exceeded (achieving an increase of almost 20 percent in 2016) by cutting the number of domestic flights in half.

\*The calculation includes direct emissions (Scope 1), indirect emissions from purchased electricity, heating and cooling (Scope 2) and indirect emissions from business travel and commuting (Scope 3). The demarcation has been based on a materiality perspective where all sources that significantly contribute to carbon emissions have been included. Carbon dioxide emissions from business investments (Scope 3) are reported separately on page 21. The calculation is based on the Greenhouse Gas Protocol, an international standard for calculating and reporting carbon emissions.

## Business ethics and anti-corruption

As a state-owned pension fund manager, AP6 falls under the remit of the Ministry of Finance, which has issued guidelines on what constitutes bribes and conflicts of interest. AP6 maintains a wide margin of safety to what is allowed. The closer you get to the allowed limit, the greater the risk of exceeding it. AP6 has adopted its own guidelines and these include a zero tolerance policy on gifts.

When it comes to invitations to individual employees, the invitation should have a clear and relevant professional purpose. Whatever is offered in the form of meeting setting, location, food and drink should be reasonable.

Secondary occupations are regulated in the Act on Public Employment (LOA).

The AP6 Code of Conduct (page 18) describes the values that apply to the

organization and is aimed at employees, partners and holdings. An employee of AP6 must never risk acting in their own interest – or be swayed by someone else who may influence their decision.

AP6 does not allow secondary occupations that conflict with the requirement for loyalty to the employer.

AP6's Ethics Committee acts as an advisory body in matters concerning the ethics, credibility and appropriateness of anything associated with AP6. This may involve everything from invitations to industry events to specific portfolio company business considerations. AP6 employees must never act in a way that risks damaging public confidence in how pension fund assets are managed.

The Ethics Committee deals with cases both on its own initiative and on the initiative of employees. Ethical issues are also discussed on an ongoing basis within the or-

ganization. During the year, the Ethics Committee received and responded to a number of queries; none of these involved suspected corruption. The composition of the Ethics Committee is described on page 27.

## Supply chain

AP6 is subject to the Act on Public Procurement (LOU). AP6 continually assesses its suppliers and sustainability is one of several important factors in this respect. The vast majority of these suppliers are service providers based in Sweden. One procurement category is goods and services associated with office operations. This covers consumables, rental of premises, various services, etc. An important area in this sphere is providers of transport for business trips. AP6 has different objectives for stimulating sustainable travel for business purposes. More information is available under Envi-

ronmental and climate impact. Financial services in connection with the issue, sale, acquisition or transfer of securities or financial instruments are excluded from LOU.

#### Internal follow-up

As regards AP6's office based operations, sustainability is followed up during the year when preparing the GRI report. The evaluation and revision of the Code of Conduct, policies and goals take place once a year.

#### Gender equality and equal pay

AP6 complies with legislation and regulations on equality and it is important that people with the same skills, experience and job description have the same terms of employment. This is a prerequisite for an organization to function properly. A review of this area was carried out in 2014 with follow-up in 2015 and 2016. It was concluded that AP6 complies with the legislation, regulations and guidelines.

#### Diversity

A successful investment organization is based on experience and expertise. Complex transactions and processes that generate value require that various perspectives are considered. It is therefore important that the composition of employees is diverse. As a government agency, it is also important that AP6 reflects the level of diversity in Swedish society.

AP6's organization consists of a relatively small workforce, with low staff turnover, in a very homogeneous industry, which makes it particularly important to have a comprehensive and long-term plan for increasing diversity.

Diversity and gender equality is part of the recruitment specification, both in terms of fixed-term and permanent positions. A balanced gender distribution at all levels of the organization is a prerequisite for running an optimal organization.

AP6 participates in Rapid Acceleration Management Program (RAMP), a special project at the Stockholm School of Economics. It provides a fast track into the Swedish labor market for university graduates who have been granted asylum.

Over the course of one year, a selection

of newly arrived university graduates will be offered ten weeks of intensive leadership training and an apprenticeship at a company in Sweden. AP6 offered a supervised apprenticeship to one participant during 2016-2017.

#### An attractive workplace

It is of strategic importance that AP6 is able to recruit and retain employees, encouraging them to continually develop their skills. Management of public pension funds through investments in unlisted assets, places high demands on expertise and judgment. AP6 recruits employees in a competitive market. To accomplish this and be perceived as an attractive workplace, AP6 strives to provide:

1. Interesting and worthwhile assignments. AP6 is a major player in the Nordic market for unlisted companies. The organization is at the forefront of corporate governance and sustainability.
2. A good work-life balance. It should be possible to combine a demanding professional role with e.g. being a parent to young children.
3. Relevant remuneration. Within the framework of the guidelines for remuneration and benefits, staff should be able to earn a good salary and receive reasonable benefits.

Continuous professional development is a key issue when it comes to retaining expertise and being regarded as an attractive employer in the market. Skills development is planned at the annual appraisal. The amount of training per employee was approximately 20 hours in 2016, broken down into 9 hours for management and 23 hours for employees. Approximately 4 hours of training per employee were held on anti-corruption, human rights and policies. Updates on sustainability issues occur regularly and in a variety of contexts.

#### Work environment and health

The health of employees is important for AP6's development and ability to deliver a return. Health risks may consist of stress or stress-related illnesses and ergonomic issues related to office work. All employees are covered by occupational health services with a check-up every two years. They are also

offered health insurance and a fitness subsidy. Employees can get help from an ergonomist to make sure they have a suitable working environment.

AP6 otherwise complies with legislation, regulations and guidelines that apply to this area. The value for the previous year is given in brackets:

- Absence due to illness: 1.1 percent (0.7).
- Employee turnover recruiting 6.5 % (3.0), severance 6.5 % (15.2).

The option of a contribution towards gym membership etc. was taken up by 91 percent of employees (91).

#### Composition of employees

The total number of employees was 32 (31), of which 15 (15) women and 17 (16) men. Age distribution:

< 30 years	2 people
30-49 years	18 people
50-70 years	12 people

Senior management consists of 7 people; of which 6 men and 1 woman.

Of the 32 (31) employees, 26 (26) work at the head office in Gothenburg and 6 (5) in Stockholm.

The work is carried out by employees; there are no temporary consultants and no seasonal variations occur.

The Board of Directors consists of 5 (5) people, 2 (2) of whom are women. The Chairman of the Board is a woman.

#### REPORT PROFILE

This GRI G4 report is the fourth by AP6 and the reporting period is the calendar year 2016. AP6 reports on core indicators. This means that the report is based on factors relevant to AP6's operations and which AP6 can influence in different ways. The report covers every part of AP6's operations. There is no division into regions. The sustainability report is prepared once a year. No new circumstances or significant changes have occurred since the previous year. The GRI report is a component of the AP6 annual report. The GRI report has not been examined by auditors.

For information or comments on the sustainability report, please contact:

**MARGARETA ALESTIG JOHNSON**

Deputy Managing Director with responsibility for sustainability issues  
margareta.alestig@apfond6.se

## 2016 GRI index for the Sixth AP Fund

Reporting area	Page	Comment
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<b>PROFILE OF THE ORGANIZATION</b>		
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G4-5 Location of the organization's head office	35	
G4-6 Countries where the organization operates	7	
G4-7 Ownership	35	
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\* N/A = Not applicable

### FACTS



#### GLOBAL COMPACT AND PRI

AP6 is a signatory of the UN Global Compact, and is committed to implementing and integrating the principles of human rights, working conditions and environment in its operations and to influencing other companies to follow the Global Compact.

AP6 is also a signatory of the UN Principles for Responsible Investment, PRI. When making investment decisions, AP6 undertakes to consider the handling of environmental aspects, social issues and good governance, as well as encouraging reporting on ethical aspects in its investments through active ownership.



AP6 conducted a climate change assessment in 2016 in order to measure the portfolio's carbon footprint. The analysis was carried out by South Pole Carbon.

#### About the sustainability report

The report covers AP6's internal operations. It also outlines AP6's areas of influence as determined by the analysis. The analysis includes an assessment of the importance of every relevant aspect, as well as identifying where this effect occurs, internally or externally. The analysis is based on GRI's principles for selection of content.

## Aspects and indicators 2016-12-31

Material aspect	DMA and indicator	Internal/ external effect	Page in annual report	Comment
<b>ECONOMY</b>				
<b>Financial performance</b>	DMA/Management	I/E	2	
	EC1 – Performance and return		2	
<b>ENVIRONMENT</b>				
<b>CO<sub>2</sub> emissions</b>	DMA/Management	I	24	
	EN17 – Carbon dioxide emissions from travel		24	The category courier services is not reported because it is not relevant
<b>WORKING CONDITIONS</b>				
<b>Employees</b>	DMA/Management	I	25	There is no division into regions *
	LA1 – Employee turnover		25	
<b>Health and safety</b>	DMA/Management	I	25	*
	LA6 – Absence due to illness		25	
<b>Skills/training</b>	DMA/Management	I	25	
	LA9 – Number of hours for training		25	
<b>Diversity and equal opportunities</b>	DMA/Management	I	25	
	LA12 – Gender distribution		25	
<b>HUMAN RIGHTS</b>				
<b>Training</b>	DMA/Management	I	25	
<b>Human rights</b>	HR2 – Total hours of employee training on human rights policies or procedures		25	
<b>CORPORATE SOCIAL RESPONSIBILITY</b>				
<b>Anti-corruption</b>	DMA/Management	I	25	
	S03 – Number and percentage of operations assessed for risks related to corruption and the significant risks identified		24	
	S04 – Communication and training on anti-corruption policies and procedures		25	The Board discusses anti-corruption on an ongoing basis
	S05 – Corruption incidents during the year and action taken		24	
<b>FINANCIAL SECTOR ADDENDA</b>				
<b>Product Portfolio</b>	DMA/Management	I/E	6-11	
	FS6 – Percentage of the portfolio by size and business lines		8	
<b>Follow-up</b>	DMA/Management	I/E	17-19	
<b>Active ownership</b>	DMA/Management	I/E	17-19	
	FS10 – Percentage and number of companies held in the portfolio where AP6 has interacted on sustainability issues		18,19	
	FS11 – Percentage of assets analyzed from a sustainability perspective		19	

\* The gender/age categories are not reported due to the exemption rule in the legislation that says this information should not be disclosed if it could be linked to a specific individual.

## Senior management and committees

### SENIOR MANAGEMENT:

Karl Swartling  
(Managing Director)  
Margareta Alestig Johnson  
(Deputy Managing Director)  
Henrik Dahl (CFO)  
Mats Lindahl  
(Head of Direct Investments)  
Karl Falk  
(Head of Fund Investments)  
Jonas Lidholm  
(General Counsel)  
Ulf Lindqvist  
(Head of Communications)

### INVESTMENT COMMITTEE:

Margareta Alestig Johnson  
(Chairman)  
Karl Swartling  
Henrik Dahl  
Mats Lindahl  
Karl Falk  
Jonas Lidholm  
Ulf Lindqvist

### VALUATION COMMITTEE:

Henrik Dahl (Chairman)  
Karl Swartling  
Margareta Alestig Johnson

### NOMINATION AND REMUNERATION COMMITTEE

Jonas Lidholm (Chairman)  
Mats Lindahl  
Margareta Alestig Johnson  
Karl Swartling

### ETHICS COMMITTEE:

Ulf Lindqvist (Chairman)  
Jonas Lidholm  
Margareta Alestig Johnson

### AP6 BOARD COMMITTEES

**Audit Committee**  
Per Strömberg (Chairman)  
Catrina Ingelstam

### Remuneration Committee

Urban Lindskog (Chairman)  
Henrik Dagel

### Sustainability Committee

Ebba Lindsö (Chairman)  
Per Strömberg

# Fund Governance Statement

The Fund Governance Statement was written using the Swedish Corporate Governance Code as inspiration. It is a set of guidelines on good governance for listed companies and it has become standard practice for industry, government agencies and other types of companies. The report must, at the same time, cover AP6's specific status as a government agency and AP fund. Compared to other public authorities, the difference is large. The various AP funds have a very special status, with their activities regulated by law. The Swedish Government does not have any regulatory authority over the funds, in contrast to what applies for other public authorities.

## DEVELOPMENTS IN 2016

There was a high level of investment activity during the year, with decisions made on nine direct investments and eleven fund investments. Two major holdings were also divested: the property company, Norrporten and Volvofinans. The strategic realignment of the portfolio that was decided in 2011 has thus been concluded.

## PROGRESS MADE ON SUSTAINABILITY

AP6 advanced its sustainability approach further during the year by working even more intensely and closely with its holdings of both direct investments and fund investments. Climate change has been an important topic on the agenda, as have the efforts to get portfolio companies to report and measure sustainability practices. During the year, AP6 set up a Sustainability Committee.

## BOARD COMPOSITION

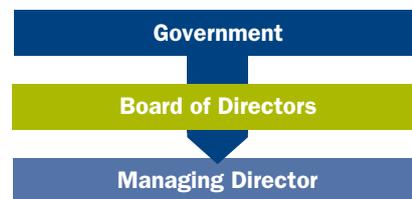
The Board of Directors, consisting of five members, is appointed by the government, which also appoints the Chairman and Deputy Chairman. The government applies one-year mandate periods for the Board members, which means that the current appointments are valid until the government has adopted AP6's balance sheet and income

statement for 2016. During the year, Catrina Ingelstam was elected as a member and Katarina Bonde left the Board.

## BOARD WORK

The Board has full responsibility for AP6's activities and in those areas where the Board's work is not regulated by the Sixth AP Fund Act (2000:193), it is regulated by the Rules of Procedure set by the Board each year. The Board held six ordinary and nine extra board meetings over the course of 2016. Besides the Board members, Board meetings are attended by AP6's Managing Director and relevant employees who possess specialist expertise or who are reporting on a particular topic. The most important tasks of the Board include setting AP6's performance target, deciding on investments, appointing and evaluating the Managing Director and ensuring that AP6 has sound procedures in place for internal controls and monitoring. Furthermore, the Board conducts an annual assessment of day-to-day operations, focusing on the long-term perspective.

### The owner appoints the Board



## AUDIT COMMITTEE

The Audit Committee assists the Board in a drafting capacity in matters concerning audits and financial reporting. The Committee's task is to monitor AP6's financial reporting and the efficiency of its internal controls, internal audit (as required) and risk management, as well as briefing the Board on the audit of the annual report. It is also the Audit Committee's task to approve the Valuation Committee's proposed valuations of unlisted assets each year when the annual financial statements are being prepared. The Committee must also meet

AP6's auditors at regular intervals for briefings on the audit and on risk exposure. The Committee is required to meet at least three times a year, with AP6's auditors attending on at least one occasion. The Committee must consist of two members from the Board, one of whom should be appointed chairman. The Managing Director, Deputy Managing Director, CFO and, where necessary, a controller as keeper of the minutes should be co-opted members.

## REMUNERATION COMMITTEE

The Remuneration Committee assists the Board in a drafting capacity in matters concerning remuneration policies, remuneration and other terms of employment for AP6's management. The Committee must monitor and evaluate the application of the guidelines for the terms of employment for senior executives decided by the Board and use the government's guidelines issued in April 2009 as a basis for its approach. The Committee must prepare draft proposals for a framework for annual salary reviews for AP6's employees. The Committee must consist of two members from the Board, one of whom should be appointed chairman. The Managing Director, Deputy Managing Director and a legal adviser as keeper of the minutes should be co-opted members.

## SUSTAINABILITY COMMITTEE

The Sustainability Committee assists the Board in a drafting capacity in matters concerning AP6's sustainability efforts. The Committee must, in collaboration with AP6's management prepare the following:

- The annual plan for sustainability efforts;
- Relevant sustainability goals;
- Criteria and methods for measuring and evaluating the Fund's sustainability efforts; and
- Guidelines for annual sustainability reporting

The Committee must meet twice per year and consist of two members from the Board, one of whom should be appointed chairman.

## FEES, SALARIES AND INCENTIVE SCHEMES

Fees and other remuneration paid the Board are decided by the government. 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 on remuneration for the Managing Director and pay scales for all other employees. The Board also decides whether to offer any incentive schemes. AP6 does not offer variable remuneration or incentive schemes for management or other employees. In 2009, the government issued new guidelines on the remuneration of AP fund senior executives. These guidelines rule out variable remuneration, introduce limits on pension benefits and regulate retirement age. See Note 6 for more details.

## INTERNAL CONTROL

Internal controls are essential to efficient operations. The Board is responsible for internal controls. The Board may be assisted by the Managing Director and, if necessary, internal audit if a particular area requiring an audit has been identified. Since AP6 has few employees, and no separate (in-house) function for internal audit, external consultants with the right expertise are instead engaged. In 2017, the Audit Committee will consider whether to engage the services of an internal auditor to review certain well-defined processes. The risks identified by internal auditors and through internal controls, are managed by introducing specific activities to the process flow. New

or modified activities mainly relate to organizational structure, decision-making paths, levels of authority or allocation of responsibility. These changes are communicated in the policies adopted by the Board, as well as in the directives decided by the Managing Director. Documents and tools to assist with day-to-day operations are also created.

### AP6 is supported by four different committees:

- **The Investment Committee**, involved in investment decision and prepares supporting documentation on investments that will be considered by the Board.
- **The Ethics Committee**, handles ethical issues that arise within the organization.
- **The Nomination and Remuneration Committee**, monitors the nomination and remuneration issues faced by investment managers at portfolio companies.
- **The Valuation Committee**, prior to the publication of annual and interim financial statements, must approve the valuations of unlisted holdings.

For financial institutions with larger organizations, and those following the Swedish Financial Supervisory Authority's (FI) regulations, functions are required for managing compliance and risk. At AP6, these functions are shared between different levels of the organization. The compliance function is shared by AP6's legal adviser (legislation and regulations) and the CFO (financial reporting). The risk management function is performed by a risk controller who reports regularly to the Deputy Managing Director. Risk management is a natural part of ongoing investing activities. Risks are accordingly managed and reported directly by the relevant investment manager

for the funds and companies in which AP6 has invested.

## AUDIT

AP6's auditors are appointed by the government. The current auditors are Magnus Svensson Henryryson (PwC) and Susanne Sundvall (PwC), whose appointment runs until 31 May 2017.

The auditors' work includes examining AP6's operating activities, administration, financial statements and annual report. Based on their audit, the auditors express an opinion on the accounting records and the administration. Their work also includes verifying that AP6 follows generally accepted accounting and valuation principles, and that the accounting records provide a true and fair view of operations. An audit has also been performed on AP6's IT environment, focusing on processes related to IT architecture and the business system.

At least once per year, the auditors present a written and oral report on their audit to the Board, along with a written report on their audit of the administration and financial statements. In addition to this, the auditors report verbally to the Ministry of Finance once a year.

## BOARD ASSESSMENT

Under the Sixth AP Fund Act (2000:193), the Board must carry out its own annual assessment of its management of the fund assets, i.e. a performance review. This assessment must be submitted to the government in conjunction with the presentation of the annual report and the auditors' report. It is presented in a separate report published on the AP6 website.

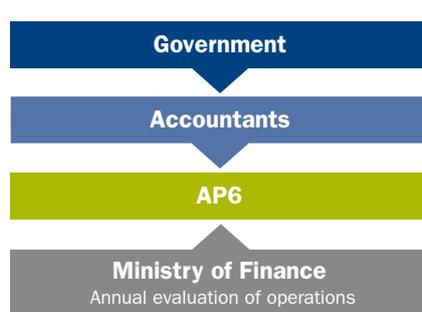
## GOVERNMENT ASSESSMENT

In addition to the Board's own assessment, the Ministry of Finance conducts an annual assessment of AP6's operations on behalf of the government. This assessment is carried out for all AP funds with the assistance of external consultants. The assessment is presented in a written communication to the Swedish Parliament which is published in conjunction with the government adopting the income statements and balance sheets of the AP funds for the 2016 financial year.

### Internal control of operations



### The owner exercises control



# Board of Directors



**EBBA LINDSÖ**  
*Chairman*

**BORN:** 1955  
**ELECTED:** 2011

**OTHER APPOINTMENTS:**  
Board member of SBAB Bank, Burenstam & Partners and UNICEF Sweden.



**PER STRÖMBERG**  
*Deputy Chairman*

**BORN:** 1968  
**ELECTED:** 2011

**OTHER APPOINTMENTS:**  
Professor of Finance and Private Equity at the Stockholm School of Economics. Adjunct Professor of Finance at the University of Chicago Booth School of Business and chairman of the Committee for the Prize in Economic Sciences in Memory of Alfred Nobel.



**CATRINA INGELSTAM**  
*Board member*

**BORN:** 1961  
**ELECTED:** 2016

**OTHER APPOINTMENTS:**  
Board member of Orio AB, Swedbank Sjuhärad AB and Dina Försäkringar Mälardalen AB.



**HENRIK DAGEL**  
*Board member*

**BORN:** 1958  
**ELECTED:** 2011

**OTHER APPOINTMENTS:**  
Head of Special Operations at Swedfund. Board member of Raffia Holdings Ltd, Athi River Steel Ltd, HSF Wuxi Electro Mechanic Ltd and Global Medical Investment AB.



**URBAN LINDSKOG**  
*Board member*

**BORN:** 1965  
**ELECTED:** 2015

**OTHER APPOINTMENTS:**  
CEO of Lindskog & Partners

# Management



**KARL SWARTLING**  
*Managing Director*

**BORN:** 1965  
**EMPLOYED:** 2012

**BOARD ASSIGNMENTS:**  
None

No holdings in unlisted companies.



**MARGARETA ALESTIG JOHNSON**  
*Deputy Managing Director and Administrative Manager*

**BORN:** 1961  
**EMPLOYED:** 2013

**BOARD ASSIGNMENTS:**  
Green Cargo AB and OX2 Group AB.

No holdings in unlisted companies.



**HENRIK DAHL**  
*CFO*

**BORN:** 1975  
**EMPLOYED:** 2008

**BOARD ASSIGNMENTS:**  
None

No holdings in unlisted companies.



**KARL FALK**  
*Head of Fund Investments*

**BORN:** 1972  
**EMPLOYED:** 2012

**BOARD ASSIGNMENTS:**  
None

No holdings in unlisted companies.



**MATS LINDAHL**  
*Head of Direct Investments*

**BORN:** 1964  
**EMPLOYED:** 2012

**BOARD ASSIGNMENTS:**  
SLS Invest AB and Bergsala AB.

No holdings in unlisted companies.



**JONAS LIDHOLM**  
*General Counsel*

**BORN:** 1970  
**EMPLOYED:** 2001

**BOARD ASSIGNMENTS:**  
None

No holdings in unlisted companies.



**ULF LINDQVIST**  
*Head of Communications*

**BORN:** 1963  
**EMPLOYED:** 2008

**BOARD ASSIGNMENTS:**  
None

No holdings in unlisted companies.

# Remuneration levels, benefits and business representation costs

The government adopted guidelines in 2009 on remuneration of senior executives at the AP funds; other employees were not included. The main objective of this measure was to protect public confidence in the AP funds. Viewed from a larger perspective, the issue of confidence encompasses several different aspects. Remuneration is just one part, responsible investments another. Openness and transparency are additional factors that build confidence.

AP6 reports on its work on responsible investments in various places in the Annual Report, including the GRI report. Benefits, guidelines on remuneration of all employees and the results of a comparison of the level of remuneration paid to all employees are set out below.

## Government guidelines for senior executives of the AP funds

- The total remuneration paid to senior executives of the AP funds should be reasonable and motivated.
- It should also be competitive, have a ceiling and be appropriate for the work concerned, as well as contributing to a good ethical code and organizational culture.
- The remuneration should not be higher than at comparable institutions but should instead be characterized by moderation.
- Variable salary (i.e. bonuses) may not be paid.
- Other employees may receive variable salary, although no more than the equivalent of two months' salary.

## AP6's Board of Directors has decided that:

- All employees, not just senior executives, fall within the scope of the government guidelines.
- There will be no opportunities for variable salary (i.e. bonuses)

AP6 must also encourage the application of the guidelines to the greatest extent possible in companies in which AP6 has an ownership interest.

## ANALYSIS OF AP6'S REMUNERATION LEVELS

AP6 has commissioned an evaluation of total remuneration levels (salary and pension) for all of its employees. Aon Hewitt has been engaged to carry out this evaluation. This company is part of Aon Consulting Company, an external and independent international consultancy firm. The comparison material has been divided into two categories to allow for the differences in remuneration structure and remuneration levels between them. The two categories are private asset managers as well as state-owned companies and agencies.\*

AP6's operations differ somewhat from those of other similar organizations since AP6's focus is based on unlisted holdings. This means that AP6 has a need for specific expertise in employees who identify, implement and monitor investments in unlisted companies.

## Results of the evaluation

The results of Aon Hewitt's evaluation show that the average and median total remuneration (salary and pension) for employees at AP6:

- is 21 percent lower than the private market (median 15 percent) overall.
- is 1 percent higher than comparable positions at state-owned companies and public authorities (median 14 percent) overall.

Because changes in the market occur over time, comparison to the prior year could be affected by changes in the reference group. AP6's goal is to, each year, conduct a comparison with a similar reference group in order to monitor the salary trend in the chosen market.

## TOTAL REMUNERATION (SALARY AND PENSION) FOR EMPLOYEES AT AP6 IN COMPARISON WITH

Average	AP6 2016	AP6 2015
Private market	-21 %	-18 %
Government market	+ 1 %	+ 6 %
Median		
Private market	-15 %	-15 %
Government market	+ 14 %	+ 16 %

The conclusion of the AP6 Board is that remuneration to the employees can be considered reasonable and in line with the government guidelines. In other words, the remuneration levels are well considered and competitive, in comparison with companies focused on long-term asset management.

## Costs of representation and taxable benefits in 2016

AP6 has strict guidelines when it comes to representation and benefits. A deliberate choice was made here when, for instance, company cars were withdrawn and public transport passes were introduced instead. Representation costs should be reasonable and appropriate. For example, alcohol is not permitted for internal representation.

Cost	SEK/employee/year
Entertainment (internal and external)	635
Taxable benefits (Public transport passes, meals subsidy)	16,050

\* In instances where there was insufficient data, Aon Hewitt indexed the previous year's data by an average of approximately 2.7%.

# Directors' Report

*The Board of Directors and Managing Director of the Sixth AP Fund (AP6) hereby present the Annual Report for AP6 operations in the 2016 financial year. The following income statement and balance sheet, specifications and notes to the financial statements are an integral part of the Annual Report.*

## GENERAL

The Sixth AP Fund is a long-term investor in unlisted companies. It has a clear mission, to generate a long-term high return with adequate risk diversification through investments in the unlisted private equity market. In the current strategy adopted by the Board in 2011, investments are focused on the buyout segment (mature companies), where the investment history of both the market and the Sixth AP Fund makes it reasonable to expect a good return over time. Investments in the venture segment (early phase) are only made indirectly through funds and in a more restrictive manner. Direct investments in companies are therefore only made in mature companies and preferably together with other financial and industrial investors. This often means co-operations in which AP6 takes a minority position and works closely with or via a partner. This strategy also makes AP6 a long-term partner for funds and investment companies active in the unlisted market with a long-term investment horizon and a strong return history. AP6 can be a partner and investor by allocating assets to a management team. Or, it can be an owner/direct investor and partner in a specific company. This unique combination of investments in funds and companies creates transaction opportunities, competitive advantages and flexibility, allowing the best deal to be selected on each occasion. The combination is therefore an important part of creating a long-term high return with adequate risk diversification.

Within the organization, the cross-utilization of expertise between Fund Investments and Direct Investments is continuing, which contributes to greater efficiency in the internal processes. Direct Investments contributes expertise when capital is being committed to new funds, for those cases where the process requires an assessment of AP6's existing investments in portfolio companies. Fund Investments contributes an important network of contacts through investments in the funds. This means that the team for Direct Investments has a unique opportunity to work with and selectively evaluate investment proposals (co-investments) that may arise in companies whose principal owners are funds in which AP6 has invested. The investment proposals are screened carefully by the principal owner, leading to very efficient use of resources with minimal transaction costs as a result.

## SIGNIFICANT EVENTS DURING THE YEAR

### **Profit/Loss**

The net profit for 2016 amounted to SEK 1,722 (2,867) million, which corresponds to a return of 6.5 (12.2) percent. The return should be compared to the performance target for 2016, which was 10.5 percent. The profit for the period 2007-2016 amounted to SEK 10,950 million. This corresponds to an annual return of 5.1 percent and should be compared to the performance target for the period, which is 9.6 percent.

AP6 strives to base the annual report on the latest available information. For some fund and direct investments, it means that the value is based on reporting through the third quarter. Adjustment is made afterwards for the cash flows that occur through to year-end. For direct investments, where AP6 establishes the value through own assessments, all companies are valued in conjunction with year end.

### **Returns from mature companies outperform the target over a longer period**

2016 was another year with a positive stock market trend. AP6's listed target index (SIX Nordic 200 Cap GI) rose by 8.0 percent. Accordingly, AP6 did not achieve this year's target of 10.5 percent (index growth of 8.0 percent plus excess return target of 2.5 percent). What should be taken into account is that AP6 invests in unlisted assets and these naturally do not reflect the volatility and risk profile of a listed equity portfolio or a particular listed index. Instead, the ambition is for existing investments, together with those implemented successively, to provide a high level of stable returns over a long period. For this reason, the return should not be compared to a single year on the stock exchange but rather be evaluated over a longer period and across multiple business cycles. Analysis of the period since AP6 was founded (20 years) and over 10 years shows returns in the mature companies segment of 14.8 and 10.1 percent respectively, which should be compared to the respective targets for these periods of 12.4 and 9.6 percent. Consequently it may be concluded that the investments made in mature companies (buyout) and which form the basis for the current strategy have been successful. AP6's total return does not meet the target in any of the periods, which is not entirely relevant given that the performance is negatively affected by the previous strategy and the early phase investments that were also put in place (venture capital).

## FUND CAPITAL

At the end of 1996, AP6 started with fund capital of SEK 10.4 billion, which by the end of 2016 had grown by SEK 17.7 billion to SEK 28.1 billion. This is equivalent to a total increase in value since launch of about 170 percent and an annual average growth rate of 5.1 percent. Since 2003, the majority of AP6's assets has been invested in unlisted companies. An analysis shows that during the period 2007-2016 (the last 10 years) fund capital has grown from SEK 17.2 billion to SEK 28.1 billion, which corresponds to an average annual growth rate of 5.1 percent.

AP6 is a closed buffer fund, which means that there is no requirement to annually pay in or receive funds to balance the national pension scheme's payment flows. This means that gains are reinvested and that any losses must be covered by the fund capital.

Assets allocated (but not yet paid) by AP6 to investments in funds and directly owned companies amounted to SEK 11.1 (6.8) billion at the end of the year.

## INVESTING ACTIVITIES

AP6 operations are divided into investing activities and liquidity management. Investing activities comprise direct investments in companies and indirect investments in companies through funds.

### Direct Investments

The market-value capital of Direct Investments amounted to SEK 7.9 billion (12.4) at the end of 2016, while the profit for the year before internal expenses amounted to SEK 1,013 (1,788) million.

In 2016, major changes were made to the Direct portfolio. This mainly occurred with the divestiture of Norrporten to Castellum. It yielded a very good return for Swedish pensioners. AP6 was partially paid in shares, thereby enabling it to reap the benefits of future growth in earnings and synergies. Another major transaction was the sale of Volvofinans to Volvo Car Corporation. The deal was signed in 2015, but could not be concluded until 2016, once it had been approved by the Swedish Financial Supervisory Authority (FI) and competition authorities. Norrporten had been part of the portfolio for 15 years and Volvofinans for 10 years. Accordingly, they have contributed to a stable return over a long period of time. During the year, there were also many favorable investment opportunities. In total, nine new investments (co-investments) were made, worth SEK 1.7 billion. In addition, shares in Castellum were received, worth SEK 1.5 billion. Several investments were also made with entirely new partners, which is positive from the perspective of diversification and it reflects the fact that the portfolio has become more international.

The market value of investments in companies in mature phase (buyout) amounted to a total of SEK 6.8 billion, with the profit for the year before internal management costs totaling SEK 933 million. This profit level yields a return for the year of 11.1 percent. Apart from the contribution of sales to the profit, which was described above, several co-investments also performed well during the year. Examples are the software company, Visma (jointly owned by HgCapital) and Lindorff (jointly owned by Nordic Capital).

Companies that did not perform in line with expectations were Aibel and Salcomp. This was due to the difficult market situation that they each face (Norwegian oil services and manufacturing of chargers for mobile devices, respectively). It means that the risks described in current business plans are now assessed as being slightly higher, thus motivating devaluation of the holdings.

The market value of investments in early phase (venture capital) amounted to SEK 1.1 billion and the profit for the year to SEK 80 million. The profit level provides a return for the year of 8.0 percent and is mainly attributable to the positive growth of Apotea, which is a market-leading E-pharmacy online.

The return for the buyout business area since inception (1997-2016) and for the last 10 years (2007-2016) is 15.1 and 9.2 percent respectively. The corresponding figures for venture capital are -12.8 and -12.7 percent, primarily as a result of previous strategic direction. Investments within the mature segment have outperformed the target that was originally 12.4 percent, but are just under the target for the last 10 years of 9.6 percent. The return for the buyout segment may over time be considered sufficiently high and the prospects for these investments as still good.

### Fund investments

Fund Investments invest in funds managed by experienced management teams, who invest in companies in the buyout and venture market segments. Investments are made mainly in primary funds, but also in the secondary market by making commitments to secondary funds, or through the purchase of own secondary shares. The market value assets of the business area amounted to SEK 8.9 billion (7.0) at the end of 2016, while the profit for the year before internal expenses came to SEK 603 million (720).

The market value assets in the buyout portfolio amounted to SEK 7.2 billion (5.5) at the end of 2016, while the profit for the year before internal expenses came to SEK 491 million (480). The profit level was affected positively by portfolio revaluations and by realizing assets at values higher than the opening market value. The market value assets within venture capital amounted to SEK 1.7 billion (1.5) at the end of 2016, while the profit for the year before internal expenses came to SEK 112 million (240).

In 2016, the rate of commitments to new funds increased substantially, not least in the international market. The aim is to, over the long term, grow the portfolio of funds. The means of doing so primarily come from the large inflow of liquidity mainly attributable to divestiture of Norrporten and Volvofinans. Commitments were made totaling SEK 5.6 billion, of which SEK 1.7 billion in the Nordic region and SEK 3.9 billion elsewhere. The rate of commitments slightly exceeds the long-term goal and it reflects the fact that, over the last year, many new and promising opportunities became available. Besides these commitments, there was also a secondary acquisition of shares in three of Nordic Capital's funds. The seller was AP2 and the acquisition was made at the going market rate.

The return for the buyout business area since its inception (1997-2016) is 14.5 percent and for the last 10 years (2007-2016) it is 11.8 percent. The corresponding figures for venture capital are -1.5

percent and 1.7 percent, respectively. Investments within the mature segment thus outperform the targets for these periods, which are 12.4 and 9.6 percent respectively. As with direct investments, this return strengthens the current strategy, which means that new commitments are being focused on private equity investment funds that invest in mature companies. Commitments to venture capital funds are still being made, although to a lesser extent than before.

### MANAGEMENT OF THE LIQUIDITY RESERVE

The liquidity reserve is the portion of AP6's assets not used for investing activities. The purpose of the liquidity reserve is to maintain the ability to pay with management employing low risk and favorable risk diversification. Investments are placed in debt securities with high liquidity. The management objective for debt securities is to achieve a return in line with OMRX T-Bill. Apart from this, the task of liquidity management is also to manage the financial risks that may arise in the operations and, if necessary, borrow capital.

In addition to interest-bearing assets, liquidity management also has investments in the listed microcap fund Lannebo Microcap. The fund is externally managed and invests in small and medium-sized listed companies. The microcap fund also saw positive growth in 2016, contributing a profit of SEK 211 million (466), resulting in a market value at year end of SEK 1.7 billion. Overall profit for liquidity management amounted to SEK 198 million (465).

In line with the investment strategy adopted in 2011, AP6 has restructured the portfolio of direct investments. Accordingly, many companies have been divested. Many companies in the external funds' portfolios were also divested, which was possible due to the favorable exit climate of recent years. Because of this, liquidity is currently at a higher level than what is necessary to balance the portfolio's total inflows and outflows or to optimize the short-term return. AP6 therefore has a very strong balance sheet, with a SEK 11.7 billion balance in liquidity management, which corresponds to 41 percent of the fund capital. The aim is to, over the coming years, employ this capital (at a high, steady investment rate) in new, unlisted investments (direct and indirect). The intention is to minimize risk and ensure good returns in the long term.

### MANAGEMENT COSTS

The costs are divided into external and internal management costs and shared costs.

External management costs refer primarily to the management fees payable to the managers of listed holdings.

Internal management costs include staff costs related to investments in funds, directly owned companies and liquidity management holdings. They also include costs that are directly attributable to investing activities.

Shared costs include staff costs for the Managing Director and shared specialist functions, plus the cost of premises, services purchased externally, IT and general office expenses. Since AP6's operations are not subject to VAT, input VAT cannot be deducted. This is therefore expensed as incurred and included in AP6's costs.

The management fees and acquisition costs attributable to hold-

ings in funds and companies are expensed as incurred and recognized in unrealized gain/loss. In total, these costs amounted to SEK 267 (166) million, of which SEK 255 (166) million is attributable to the management costs for funds. The management costs for funds corresponds to 1.3 (1.2) percent in relation to total assets managed for funds, which at year end, amounted to SEK 19.6 (13.4) billion. That amount consists of current market value and remaining committed capital. The cost increase in SEK is attributable to having acquired a greater number of reputable funds which, over time, are expected to generate high, stable returns.

Total costs for AP6 amounted to SEK 105 million (127) in 2016, with SEK 60 million (80) of this sum attributable to investing activities and liquidity management, while SEK 45 million (47) relates to joint costs.

### ORGANIZATION AND EMPLOYEES

AP6 is owned by the government and reports to the Ministry of Finance. In terms of structure, the investment organization is divided into two business areas, Direct Investments and Fund Investments. These two business areas manage what AP6 in an analysis context refers to as investing activities. In addition to this, there is liquidity management, which includes investments in interest-bearing instruments as well as in a listed microcap fund. Liquidity management thus handles the liquidity reserve that is maintained in order to make new and additional investments within each business area. Shared functions such as legal affairs, finance, business control, HR and IT support investing activities. The head office is in Gothenburg.

At year-end, AP6 had 32 (31) employees. See Note 6 for additional information on staff. For more information on AP6's organization and employees, please visit the website, [www.apfond6.se](http://www.apfond6.se).

### EVALUATION AGAINST OPERATIONAL TARGETS

Under the Sixth AP Fund Act (2000:193), the Board of AP6 must carry out its own annual assessment of its management of the fund assets, i.e. a performance review. This assessment must be submitted to the government in conjunction with the presentation of the annual report and the auditors' report. It is presented in a separate report that can be found on the AP6 website.

### EVALUATION OF BENCHMARK

AP6 implemented a new performance target in 2012. The idea was that it should reflect the new strategic focus in the best way possible and mirror industry practice. The aim here was to identify an index that presents specific comparison data for unlisted companies. It soon became clear, however, that existing indices did not meet the criteria for validity, integrity and data quality.

But that situation changed over the last year and there are now suppliers of indices who have adequately corrected these deficiencies. The geographical diversification currently being implemented within AP6's investing activities also helps create an adequate amount of data that can be used for an unlisted benchmark. The Board has decided not to implement a new target for the organization. How-

ever, the Board's own evaluation of operations for 2016 (available at [www.apfond6.se](http://www.apfond6.se) under the heading, financial statements) contains an in-depth analysis and discussion about an unlisted benchmark.

The current target was derived from various broad equity indices based on AP6's strategic focus, with the emphasis on mature companies in the Nordic region. The choice of index was Handelsbanken's Nordix All-Share Portfolio Index Total Return. In 2013 this index ceased to be published externally, meaning that today it is owned and calculated directly by SIX in exactly the same way as before. The index is now published under the name "SIX Nordic 200 Cap GI". AP6's benchmark consists of this index plus a mark-up of 2.5 percent for a risk premium for unlisted companies. The analyses in the annual report in respect of AP6's return over different time periods use this index.

AP6 has previously stated that a listed benchmark is not really suitable for assessing its performance. In particular, it has limited relevance in the evaluation of AP6's return over shorter periods of time. The benchmark should also be used to evaluate the existing strategy in the longer term but not for comparison with historic investing activities.

#### GOVERNMENT ASSESSMENT

The Ministry of Finance conducts an annual assessment of AP6's operations on behalf of the government. This is done for all AP funds with the assistance of external consultants. The assessment is presented in a written communication to the Swedish Parliament and published in conjunction with the government adopting the income statements and balance sheets for the year; this is normally done in May of the following year.

The assessment primarily addresses the performance targets set by the Board, as well as the extent to which the investing activities achieved these targets. Analyses are also performed to assess the efficiency of the AP fund system from a general perspective. The latest document can be found on the Swedish government website and on the AP6 website.

#### SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR-END

After year-end, AP6 completed the co-investment in Evidensia, which is now owned jointly with EQT. The purchase sum is reported as a commitment under "Contingent liabilities and commitments" (see Note 16).

#### RESPONSIBLE INVESTMENTS

Sustainability applies to investments, organization and leadership. The sustainability aspect is an important starting point and a prerequisite for being able to generate a long-term high return on the pension fund assets that AP6 is entrusted with managing. Another reason for working with sustainability is to comply with the legal requirements set out in the Swedish Environmental Code, which includes applying the precautionary principle.

AP6 reports in line with GRI (Global Reporting Initiative) and is a member of the PRI (UN initiative for responsible investment) and

the Global Compact. As a consequence, the requirements are clearly formalised for both the investment process and when sustainability issues arise in existing holdings in companies and funds. The prerequisites for the two types of investment are not the same, which is also reflected in how sustainability is implemented. A common denominator is, however, that AP6 sets the requirements. Companies in which AP6 has a direct ownership interest are encouraged to sign up to the Global Compact. Direct Investments consist of holdings of different sizes and with different ownership stakes, a fact which means that AP6 must adapt the models to different prerequisites. Funds in which AP6 has an ownership stake are encouraged to adopt or adhere to the principles of PRI. Regardless of the type of investment, direct or indirect, the ongoing work with sustainability issues involves ensuring there are models for setting requirements, monitoring and controls, as well as for reporting deviations and subsequent action.

In order to structure AP6's efforts further, a Sustainability Committee has been set up during the year, consisting of two Board members. The Committee decides on the guidelines for sustainability reporting, along with the criteria for measurement and evaluation. An overall strategic plan will also be established, together with long-term goals. The Committee provides sustainability efforts with a clearer link between the Board's strategic efforts and the organization's operational activities. The goal, however is clear: for AP6 to be a leader in sustainability for unlisted companies. Accordingly, efforts are continually being improved in order to meet the high requirements and expectations in this area.

#### SIXTH AP FUND'S FINANCIAL INSTRUMENTS AND THEIR IMPACT ON PERFORMANCE

International Financial Reporting Standards (IFRS) are a set of internationally accepted regulations and AP6 continually assesses the way in which its annual report can be changed and improved in order to provide a fair and transparent view of operations. These regulations require significant disclosures on financial instruments. Disclosures in accordance with IFRS 7 are meant to make it possible for a user to assess the importance of financial instruments to AP6's financial position and performance, as well as the nature and extent of the financial risks resulting from holdings and to which AP6 is thus exposed. A description is provided below of how the financial instruments impact performance, financial position and risks that exist for current holdings, as well as how these risks are managed.

To begin with, it should be mentioned that under the Sixth AP Fund Act (2000:193), financial instruments must be valued at fair value. For a financial instrument, fair value is defined as the amount at which an asset could be transferred or a liability settled. This must take place between knowledgeable parties that are independent of each other and have an interest in the transaction being carried out. AP6 classifies its assets at fair value according to the following valuation hierarchy. The levels are set based on the market data available on the date of valuation.

<b>Fair value hierarchy</b> SEK million	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
Shares and fund units	3,719	–	14,899	18,618
Interest-bearing securities	9,538	-310	235	9,463
Cash	365	–	–	365

Level 1) Quoted prices are available in active markets for identical assets and liabilities.

Level 2) Financial instruments that do not belong to level 1 instead belong to level 2 if there are quoted prices on inactive markets or if the value can be derived from quoted prices.

Level 3) There is no observable market data that can be used on asset.

<b>Change within level 3 for the year</b> SEK million	<b>Direct investments</b>	<b>Fund investments</b>	<b>Total</b>
Opening balance 1 January	11,831	6,872	18,703
Investments	2,198	2,729	4,927
Change in fair value*	-3,737	320	-3,417
Less cost of acquisition	-4,342	-1,162	-5,504
Exchange rate differences and other adjustments	207	218	425
<b>Closing balance 31 December</b>	<b>6,157</b>	<b>8,977</b>	<b>15,134</b>

\* Derivative instruments for foreign currency hedging are not included in level 3, which is why the closing balance may differ slightly from the figures specified in the main text. Direct Investments for existing listed holdings are also adjusted.

As is apparent from the table, the majority of AP6's invested capital is classified as level 3. This means that in many cases no market data are available when the assets are to be valued. AP6 uses IPEV's principles as the framework for performing a valuation. When the valuation takes place most of the methods are applied, such as discounted cash flow, net assets valuation, multiple valuation, etc. (please see the accounting policies in Note 1).

Some of AP6's companies are valued based on a model in which future cash flows are an indicator of the company's value. For this valuation method to work, the company must be able to forecast its future cash flow with reasonable certainty. As future cash flows are discounted to their present value, it is important to use the correct cost of capital. This represents a weighting of the cost of loan capital and equity and is referred to as "WACC" (Weighted Average Cost of Capital). The cost of equity is on a par with the benchmark set by AP6 for the element of the company's operations that cannot therefore be financed externally by, for example, a bank loan. Borrowing costs are generally lower than the cost of equity, especially because interest expenses are tax deductible for the company. The performance target for equity for a company in early phase without opportunities for external financing is thus relatively high, thereby providing a much more restrictive valuation in the form of lower company value. Conversely, this means that a company with good financing opportunities has a lower WACC and thereby also a

higher company value in the model. The cost of capital that AP6 uses is key to how the company is valued and thus also how changes in value may arise in AP6's income statement. The most important parameters in the model are, however, the assessment of the company's future development in terms of e.g. growth, operating margin, investment requirements, etc. The risks that therefore primarily affect the company's value are market risk and performance risk (see the section "Risks in the Sixth AP Fund's operations").

The most common valuation method, which is also the method used most frequently by AP6, is multiple valuation against peer groups. These consist of a cluster of similar companies, usually listed, which are reminiscent of the company to be valued. A downturn in the stock market is likely to lead to lower multiples, thereby also leading to lower values in an unlisted portfolio. If the stock market is turbulent, a certain degree of caution must also be exercised when the valuation is partly based on multiples. The multiples that occur most frequently in AP6's valuations are EV/Sales and EV/EBITDA (see Definitions).

Valuation at visible net asset value is a method often used by asset-intensive companies. With this method, there is no direct assessment of the company's future earnings potential. Based on the visible net asset value, an assessment is instead made of the need for a discount or premium, depending on how comparable listed companies (peers) are valued.

Valuation according to the latest round of financing may also be part of the estimate. If a substantial part of the round is directed outside the existing ownership structure then this valuation will often form a central part of the estimate of the fair value. A few holdings are pre-revenue companies, i.e. the company does not yet have any operations that generate income. These companies are very difficult to value, so naturally a restrictive valuation is used, which often means at cost of acquisition or lower.

The private equity funds in which AP6 invests apply the same valuation methods outlined above. AP6 continually assesses both the valuation methods used and the valuations reported quarterly.

In the case of AP6's listed holdings, up-to-date market data are obtained at the end of the financial year. Investments of this kind therefore do not have any element of estimation in the valuation process.

## RISKS IN THE SIXTH AP FUND'S OPERATIONS

Every investment in the financial market involves an element of risk. As a result, AP6 therefore faces a number of business risks; the most significant of these fall into the following five categories.

**Market risk:** Market risk is the risk that a fair value or future cash flow from an investment will vary due to changes in the market. The market risks that predominantly affect AP6 are share price, currency and interest rate risks. Since both Fund Investments and Direct Investments are exposed to these risks, they are monitored continuously. A maximum of 10 percent of AP6's assets, valued at market value, may be exposed to currency risk. For this reason, AP6 uses derivative instruments to hedge the currency risk.

AP6's market valued assets in foreign currency at the end of the year amounted to SEK 10,723 million (6,328); of this sum assets in euros were the largest individual currency with a market value of SEK 4,578 million (3,476). SEK 9,456 million (5,664) of the total market value was hedged, providing a currency exposure of 4.5 percent (2.5) in relation to the assets under management. In line with the established financial policy, AP6's target is for currency exposure to be within the range 0-5 percent.

*Credit and counterparty risk:* This arises as an effect of the inability or unwillingness of a fund or company to carry out its contractual obligations or other commitments, a factor which could lead to losses. In these cases, AP6 is working to diversify the portfolio so that its exposure to individual holdings will not be too high. Risk is also managed by, each year, the Board adopting a future allocation plan that shows how the assets will in future be distributed between asset classes and business areas.

*Liquidity risk:* This risk is best described as the risk of a financing crisis. One of the ways in which liquidity risk arises is when assets, liabilities and commitments have different maturities. As AP6 does not have any inflows or outflows to the pension scheme, AP6 only

needs to consider its own investing activities. Unlike other buffer funds, there is no legal requirement on the proportion of assets that must be placed in investments with a low liquidity risk. AP6's target is for the liquidity reserve to normally account for 5–10 percent of AP6's total managed assets. There is also a line of credit that can be utilized if a need for financing arises.

*Performance risk:* Refers to the risk that a holding fails to perform in accordance with the objectives set in, for example, the ownership plan or business plan. The risk is monitored by both Direct Investments and Fund Investments, but for the former a more proactive approach must be taken if the risk increases. AP6 monitors its investments by being an active owner with the objective of having a representative on the board of the unlisted companies when the ownership interest makes this feasible. The companies' financial development is also monitored on a monthly basis.

*Operational risks:* The risk of financial loss as a result of human error, inadequate processes, external events or faulty systems. The ways in which AP6 manages these risks include documenting and mapping different process flows. Risk scenarios are also executed in which risks and threats are analyzed.

**SIXTH AP FUND PERFORMANCE 2007-2016 (10 YEARS)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Trend in return, %</b>	14.1	-16.6	11.3	9.4	-6.9	9.2	9.2	6.5	12.2	6.5
Benchmark index <sup>1</sup>	9.0	7.4	7.5	6.5	7.7	20.2	30.0	19.5	15.4	10.5
<b>Fund capital, SEK bn</b>	<b>19.6</b>	<b>16.4</b>	<b>18.2</b>	<b>19.9</b>	<b>18.5</b>	<b>20.2</b>	<b>22.1</b>	<b>23.6</b>	<b>26.4</b>	<b>28.1</b>
<b>Profit/loss summary, SEK m</b>										
Profit/loss before costs	2,610	-3,108	1,999	1,874	-1,237	1,838	1,982	1,561	2,994	1,827
External management costs	-33	-17	-16	-22	-23	-21	-24	-22	-21	-13
Internal management costs and shared costs	-145	-127	-130	-146	-120	-116	-98	-98	-106	-92
<b>Profit/loss for the year</b>	<b>2,432</b>	<b>-3,252</b>	<b>1,853</b>	<b>1,706</b>	<b>-1,380</b>	<b>1,701</b>	<b>1,860</b>	<b>1,441</b>	<b>2,867</b>	<b>1,722</b>

1. Benchmark index: 2003–2011 absolute performance target. 2012–2016 performance target SIX Nordic 200 Cap GI +2.5%.

**SIXTH AP FUND'S PROFIT/LOSS AND FUND CAPITAL BY BUSINESS AREA**

SEK million	Profit/Loss					Total	Return before	Market value assets
	2012	2013	2014	2015	2016		costs, % 2012–2016	2016-12-31
Direct investments	526	418	372	1,788	1,013	4,117	7.6	7,936
Fund investments	910	763	796	720	603	3,792	13.8	8,861
Liquidity management & risk management	381	777	371	465	198	2,192	–	11,650
Shared assets, net	–	–	–	–	–	–	–	-309
Internal management costs	-55	-48	-50	-59	-47	-259	–	–
Shared costs	-61	-50	-48	-47	-45	-251	–	–
<b>Total</b>	<b>1,701</b>	<b>1,860</b>	<b>1,441</b>	<b>2,867</b>	<b>1,722</b>	<b>9,591</b>	<b>8.7</b>	<b>28,138</b>

\* Shared assets, net, primarily consist of transactions that have not yet gone into liquidation, which are reported under other receivables and other liabilities.

# Income statement

SEK million	Note	2016	2015
<b>Investing activities</b>			
Net gain/loss, listed shares and participations		348	796
Net profit/loss, unlisted shares and participations	2	1,170	1,976
Dividends received		308	225
Other financial income and expenses	3	1	-3
Management costs	4,6	-60	-80
Shared costs	5,6	-45	-47
<b>Profit/loss for the year</b>		<b>1,722</b>	<b>2,867</b>

# Balance sheet

SEK million	Note	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>			
<b>Investment assets</b>			
Shares and participations in listed companies and funds	7,8	3,719	1,966
Shares and participations in unlisted companies and funds	7,9	14,899	18,602
Other interest-bearing instruments	7,10	9,773	5,192
<b>Total investment assets</b>		<b>28,391</b>	<b>25,760</b>
<b>Receivables and other assets</b>			
Derivative for currency hedging		55	242
Other current receivables	11	161	1
Prepaid expenses and accrued income	12	119	63
Cash and cash equivalents	7	365	401
<b>Total receivables and other assets</b>		<b>700</b>	<b>707</b>
<b>TOTAL ASSETS</b>		<b>29,091</b>	<b>26,467</b>
<b>FUND CAPITAL AND LIABILITIES</b>			
<b>Fund capital</b>			
Initial capital		10,366	10,366
Retained earnings		16,050	13,184
Profit/loss for the year		1,722	2,867
<b>Total fund capital</b>		<b>28,138</b>	<b>26,417</b>
<b>Current liabilities</b>			
Derivative for currency hedging		365	25
Accrued expenses	14	72	21
Other current liabilities	15	516	4
<b>Total current liabilities</b>		<b>953</b>	<b>50</b>
<b>TOTAL FUND CAPITAL AND LIABILITIES</b>		<b>29,091</b>	<b>26,467</b>

# Notes

All amounts are in millions of Swedish kronor (SEK million) unless otherwise stated.

## Note 1 Accounting policies

The Sixth AP Fund (AP6) complies with the provisions of the Sixth Swedish National Pension (AP) Fund Act (2000:193). This Act came into force on 1 January 2001. The Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden. Due to the law governing AP6, all investments must be measured at fair value in AP6's accounting. No changes took place in the Fund's accounting policies in 2016.

### Accounting according to IFRS

IFRS is a set of internationally accepted accounting rules and AP6 therefore continuously evaluates changes taking place in this area. AP6 meets the definition of an investment entity as per IFRS 10. It must decide what is relevant for each individual standard and then assess the data that should be presented in order for an external reader to obtain a true and fair view while also ensuring that the Annual Report remains clear. It has been determined that the year's results are consistent with IFRS. As with the other AP Funds, a separate cash flow statement is not prepared for the annual report. This is the only exception to IFRS.

### Recognition and measurement of unlisted securities

AP6 measures all holdings at fair value and uses the IPEV (International Private Equity and Venture Capital Valuation Board, [www.privateequityvaluation.com](http://www.privateequityvaluation.com)) guidelines as a valuation framework. Essentially this means holdings should be recognized at fair value. It should be noted that it is not a requirement that these guidelines be followed, but as they are internationally accepted and are consistent with the way the other AP funds measure their unlisted holdings, AP6 has chosen to follow these principles. The annual report is based on the latest available information, which for some of the fund and direct investments means that valuation is based on reporting through the third quarter. In all instances, adjustment is made afterwards for the cash flows that occur through to year-end. For direct investments, where AP6 establishes the value through own assessments, all companies are valued in conjunction with year end. The focus is on companies whose value in relation to the total portfolio is significant. The measurement of unlisted holdings includes a significant degree of judgment, as a result of which any changes in the assumptions made can have a significant impact on results. In each individual case, AP6 attempts to determine which combination of valuation techniques is best suited to measure the fair value of the investment. The following valuation techniques are used:

### Transaction price as per the latest round of investments

AP6 has investments involving third party transactions. If such transactions have taken place during the financial year, they form an important part of the valuation. Share issues directed at existing shareholders (so-called internal rounds) must also be taken into consideration. In the event that internal rounds indicate a write-down, a more detailed analysis must be carried out, and if it is

shown that the company has attempted to attract an external party but has failed to do so, this could indicate that interest in the company is minimal. In such cases a write-down of the holding should be considered. In all cases, events that have taken place between the timing of the transaction and the timing of recognition are taken into consideration.

### Discounted cash flow

This method involves measuring the value of the company on the basis of discounted future continuous cash flows. Thereafter, the relevant net interest-bearing debt is subtracted. Future cash flows are discounted to a present value based on a risk-adjusted interest rate. The required return used in the model, and thus for the investment, must correspond to the average expected market rate of return for a portfolio with a comparable level of risk and investment horizon. In those cases where the investment at the time of measurement does not yet show a positive cash flow, and an alternative valuation showing a more accurate value has not been performed, a more cautious estimate of the value of the company should be made. In such cases, the market value of the investment is often its cost of acquisition, or lower.

### Net asset method

This method is appropriate for property or finance companies, whose value consists primarily of the company's net assets. Afterwards, consideration is given to comparable listed companies value as regards a premium or discount to net asset value.

### Valuation using multiples

This valuation technique is the most common and is often based on multiples such as EV/EBITDA and EV/Sales. Valuation using multiples is traditionally easier to implement in the case of more mature companies because of the availability of listed comparable companies for reference (peer groups). In the case of individual small companies it may be difficult to identify comparable companies for valuation using multiples. This often results in a more cautious valuation which is instead based on discounted cash flow or the transaction price as per the latest round of investments.

AP6's valuation process includes stress testing of investments in order to show the effect of various scenarios on the valuation range. If an investment is very volatile, AP6 opts for a more restrictive assessment of value.

Revaluations of unlisted holdings are recognized in the Income statement under the heading Net gain/loss, unlisted shares and participations, and are also detailed in Note 2. However, in the case of a permanent and significant impairment (e.g. bankruptcy) an impairment loss is recognized, usually for the entire amount of the investment. This impairment loss is recognized in the Income statement under the heading Net gain/loss, unlisted shares and participations, and is also detailed in Note 2.

Valuations of holdings in funds that invest in unlisted companies are primarily based on valuations received from the respective funds as at 31 December 2016. In the case of holdings where AP6 has not as yet received valuations taking into account performance in the fourth quarter of 2016, the most recent valuation has been

adjusted for actual cash flows.

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

Convertible loans are reported under Shares and participations in unlisted companies and funds and recognized at amortized cost.

For funds, the cost of acquisition refers to all payments that have been made, excluding external management costs. External management costs are expensed and recognized as part of the year's unrealized value change, in Note 2. The total amount is also provided in the running text of Note 4.

Changes in the value of unlisted securities, whether realized or unrealized, are recognized in the Income statement under Profit/loss for the year. The realized gain/loss represents the difference between the sales proceeds and the carrying amount on the date of sale. The realized gain/loss also includes any impairment losses on carrying amounts which may arise in the case of bankruptcies, for instance.

AP6 manages some investments via dedicated holding companies. When the holding company's holdings are sold, AP6 reverses the cost of acquisition when the dividend is received from the company. In order to provide a fair view of the business, these dividends are reported as part of the realized gain/loss. In instances where the holding company is unable to distribute all of the proceeds, the company is then valued at net asset value. Afterwards, the value is gradually lowered as dividends are received and AP6 reports this as sales proceeds. AP6 only has a few holding companies left in the structure, so no material amounts need to be reported as described above.

#### Recognition and measurement of listed securities

Assets in which the fund's capital has been invested are recognized in the Annual Report at fair value.

The fair value is based on quoted prices at the close of business on the last trading day of the year. Transactions involving spot rates, options, forward contracts and swaps are recognized on the date that the material risks and rights are transferred between the parties, i.e. on the trade date. This principle applies to transactions on the money and bond markets, as well as the equity markets.

For shares and other securities, the cost of acquisition includes brokerage fees and other direct costs relating to the purchase.

The realized gain/loss is measured on an average cost basis.

The last traded price on the last trading day of the year is usually used for valuation.

If the closing price (traded price) is not considered representative because of special circumstances in a particular market, a price quoted at a different time may be used to measure fair value.

Positions in derivatives are measured at fair value and recognized in the same item as the instrument's underlying asset class.

Changes in value, whether realized or unrealized, are recognized in the Income statement as Profit/loss for the year.

Capital gain/loss is the difference between sales proceeds and the cost of acquisition. Capital gain/loss is the gain/loss arising on the disposal of investment assets.

#### Recognition and measurement of debt securities

The extent of investments in debt securities varies in line with changes in the fund's liquidity reserve, the size of which depends on acquisitions and disposals of holdings. In respect of acquisitions of debt securities, the asset is recognized in the Balance sheet under the item Other debt securities. Any interest accrued at the time of acquisition is recognized as accrued income. Quoted prices are available for all debt securities that the Fund invests in, excluding investments in accounts with credit institutions, such as

deposit accounts. Since all of the Fund's assets must be measured at market value, changes in market value are recognized under Gain/loss on listed assets. Any accrued interest on the instruments is recognized in the Income statement on the line "Other financial income and expenses" and details are given in Note 3.

#### Management costs

AP6's management costs are split between external and internal management costs as well as shared costs. External management costs relating to management fees for listed and unlisted holdings are expensed as incurred and reported in the income statement. There is no capitalization of management fees or acquisition costs for investments.

Internal management costs, which primarily comprise the cost of AP6's own employees working in investment activities, are expensed as incurred together with shared costs, which primarily refer to personnel costs relating to the managing director and shared specialist functions, as well as the cost of premises, IT costs and general office expenses.

Internal and external management costs are accounted for separately in Notes 4 and 5.

Performance-based remuneration is not included in external management costs but instead reduces the capital gain/loss in respect of the asset under management. No such remuneration was paid in 2016.

#### Other accounting policies

Consolidated accounts have not been prepared because shares and participations in subsidiaries must be measured at fair value.

AP6 is a public authority and therefore not a legal entity, and consequently not a parent company.

Receivables are recognized at the net realizable value. Liabilities are measured at amortized cost. Equipment purchases are written off on a continuous basis.

Realized and unrealized gains/losses are reported as net amounts in the Income statement. Gross amounts are reported in the Notes.

AP6 is exempt from income tax and the activities are not liable for VAT. However, the Fund is liable to pay VAT on purchases of foreign goods and services. Input VAT cannot be claimed and is instead entered as a cost to the business.

Assets under management comprise initial capital and retained earnings. The initial capital consists of transfers from the former Fondstyrelserna 1–3 (Swedish National Pension Fund, Boards 1–3) and a sum of SEK 366 million, which represents the residue from the winding up board for Fund 92–94. AP6 is not liable for payments into or out of the pension system.

#### Related parties

Defined as companies or funds in which AP6 has a holding of at least 20% and/or in which it has significant influence. Key individuals in leading positions are also defined as related parties. Participating interests in companies and funds are accounted for in Note 9. Remuneration to senior executives is accounted for in Note 6. Remuneration has been evaluated by an external consultant, who has reached the conclusion that the remunerations are fair and in line with government guidelines. All transactions between companies and funds are conducted on market terms as part of investing activities.

#### Commitments to investments

With regard to investments in private equity funds, a contractual commitment is made to invest a certain amount of capital. The

capital is invested over time and paid out in line with investments. The difference between committed capital and capital paid out, plus any amounts to be reinvested, is recognized as a commitment and presented in Note 16.

## Note 2 Net profit/loss, unlisted shares and participations

	2016	2015
<b>Realized</b>		
Income from disposals	10,411	1,388
Capital invested	-5,485	-1,375
Reversal of previously posted changes in value relating to divested holdings	-4,946	121
Impairment losses for the year	–	-39
Reversal of previously posted changes in value relating to impaired holdings	–	36
	<b>-20</b>	<b>131</b>
<b>Unrealized</b>		
Change in value for the year of unrealized holdings	1,280	1,997
Exchange rate difference	-90	-152
	<b>1,190</b>	<b>1,845</b>
<b>Total</b>	<b>1,170</b>	<b>1,976</b>

## Note 3 Other financial income and expenses

	2016	2015
Interest income	28	23
Interest expenses	-31	-26
Exchange rate difference	4	0
	<b>1</b>	<b>-3</b>

## Note 4 Management costs

	2016	2015
<b>External management costs</b>		
Listed holdings	13	21
<b>Internal management costs</b>		
Personnel costs	40	37
Legal consultants	0	2
Other external services	3	15
Travel expenses, etc.	2	2
Charged VAT	1	2
Other costs	1	1
<b>Total</b>	<b>60</b>	<b>80</b>

As in previous years, there were no performance-based costs.

External management and acquisition costs attributable to holdings in unlisted private equity funds and companies amounted SEK 255 (166) million and 12 (–) million, respectively. At year end, all management costs had been expensed and recognized in the income statement. They were reported in the year's value change on unrealized holdings in Note 2.

## Note 5 Shared costs

	2016	2015
Personnel costs	28	27
Premises costs	6	5
IT costs	4	6
External services	1	1
Management costs	1	1
Travel expenses, etc.	0	1
Charged VAT	2	3
Other costs	3	3
<b>Total</b>	<b>45</b>	<b>47</b>

Shared personnel costs include costs for the Managing Director and the support organization for the business.

### Management costs include remuneration to audit firms as follows:

	2016	2015
<b>Audit assignment</b>		
PwC	0.8	0.7
<b>Total</b>	<b>0.8</b>	<b>0.7</b>

As in prior years, the audit firm was only engaged to perform the statutory audit.

## Note 6 Personal

### Government guidelines on the terms and conditions of appointment of senior executives

In 2009, the government issued new guidelines on the terms and conditions of employment of senior executives in the AP funds. The guidelines include the withdrawal of variable remuneration, restrictions on pension benefits and regulation of retirement age. The guidelines also apply to other employees with the exception that it is possible to pay variable remuneration to employees other than senior executives; however, this is not implemented in AP6, which does not offer any variable remuneration. Senior executives are defined as executives who form part of AP6's Senior management. The Board of Directors' guidelines on the terms and conditions of employment of senior executives and other employees at AP6 are published on [www.apfond6.se](http://www.apfond6.se).

### Applied regulations for remuneration and benefits in 2016

The Board of Directors decides the total annual salary revision and any variable remuneration. In 2016, a comparison was carried out of remuneration paid by comparable institutions, companies and funds. The Board of Directors' view, based on this comparison, is that the remuneration and benefits of AP6's senior executives and other staff are fair, moderate and competitive. The comparison is shown on page 32 and on [www.apfond6.se](http://www.apfond6.se).

All employees are covered by collective agreements between the Employer's Organisation of the Swedish Banking Institutions (Bankinstitutens Arbetsgivareorganisation, BAO) and the Swedish Union of University Graduates of Law, Business Administration and

Economics, Computer and Systems Science, Personnel Management, Professional Communicators and Social Sciences (Jusek) / the Swedish Association of Graduates in Business Administration and Economics (Civilekonomernas Riksförbund) / the Swedish Association of Graduate Engineers (Sveriges Ingenjörer) and the Swedish Confederation of Professional Associations (SACO).

### Salaries and benefits

The salaries, fees and benefits of the board, managing director, other senior executives and other staff are shown in the table on page 46. Remuneration to senior executives is accounted for under a separate heading.

### Pensions

Senior management, including the managing director, are entitled to receive a pension when they reach the age of 65 and have paid annual contributions corresponding to 30% of pensionable salary.

AP6 does not have any commitments concerning future pensions and pension terms and conditions.

### Severance pay

Terms and conditions of employment are negotiated on an individual basis. In the event of termination of employment at the request of AP6, a period of notice of up to six months shall apply and salary and other benefits will remain unchanged. According to the Board's guidelines, an executive may receive severance pay equal to a maximum of 18 months' salary, but AP6's policy is to pay severance pay of no more than six months' salary. Employment contracts completed earlier may constitute an exception from this policy. Severance pay is paid on a monthly basis and comprises the fixed monthly salary without any additional benefits. Deductions are made for remuneration received from other sources during the period for which severance pay is paid.

### Incentive schemes

AP6 does not have an incentive scheme, which applies to both senior executives and other employees.

### Decisions on fees and remuneration

Board fees are determined by the Government. Remuneration amounts to SEK 100,000 per year for the chairman, SEK 75,000 for the deputy chairman and SEK 50,000 for other board members.

No remuneration other than board fees were paid to AP6's board.

Every year, the Board determines the managing director's salary, as well as the general development of salary levels for staff and any incentive schemes. However, AP6 does not have an incentive scheme.

### Remuneration to the Board of Directors

In 2016 remuneration to Board members was as follows: Ebba Lindsö SEK 100,000, Per Strömberg SEK 75,000, Henrik Dägel SEK 50,000, Katarina Bonde SEK 37,500 (left the Board on 30 September), Urban Lindskog SEK 50,000 and Catrina Ingelstam SEK 12,500 (joined the Board on 1 October).

### Remuneration to senior executives

According to government guidelines, the salaries and remuneration, pension expenses and other benefits of senior executives other than the managing director should also be disclosed.

Senior executives include the Managing Director and other member of senior management, which, at the end of 2016 consist-

ed of: Karl Swartling, Margareta Alestig Johnson, Jonas Lidholm, Karl Falk, Mats Lindahl, Ulf Lindqvist and Henrik Dahl.

The total amount of salaries and remuneration paid were as follows, in the same order as above: SEK 3.1 million, SEK 2.1 million, SEK 1.7 million, SEK 1.7 million, SEK 1.9 million, SEK 1.6 million and SEK 1.5 million.

Pensions, excluding employer's contribution, are as follows: SEK 0.9 million, SEK 0.6 million, SEK 0.5 million, SEK 0.5 million, SEK 0.5 million, SEK 0.5 million and SEK 0.5 million.

In addition to salaries, other remuneration and pensions, the following benefits were received: SEK 1 thousand, SEK 17 thousand, SEK 17 thousand, SEK 12 thousand, SEK 25 thousand, SEK 1 thousand and SEK 25 thousand.

		2016	2015
Average number of employees	Men	17	17
	Women	14	15
		<b>31</b>	<b>32</b>
Number of employees at 31 Dec	Men	17	16
	Women	15	15
		<b>32</b>	<b>31</b>
Board of Directors	Men	3	3
	Women	2	2
		<b>5</b>	<b>5</b>
Senior management	Men	6	6
	Women	1	1
		<b>7</b>	<b>7</b>

	2016	2015
<b>Salaries and fees</b>		
Chairman of the Board	0.1	0.1
Board of Directors excl. Chairman	0.2	0.2
Managing Director	3.1	3.0
Senior Management excl. Managing Director	10.5	10.4
Other employees	25.1	23.1
<b>Total</b>	<b>39.0</b>	<b>36.8</b>
	<b>2016</b>	<b>2015</b>
<b>Other benefits</b>		
Managing Director	0.0	0.0
Senior Management excl. Managing Director	0.1	0.1
Other employees	0.4	0.4
<b>Total</b>	<b>0.5</b>	<b>0.5</b>
	<b>2016</b>	<b>2015</b>
<b>Pension expenses</b>		
Chairman of the Board	–	–
Board of Directors excl. Chairman	–	–
Managing Director	0.9	0.9
Senior Management excl. Managing Director	3.1	3.0
Other employees	7.9	7.5
	<b>11.9</b>	<b>11.4</b>
<b>Social security expenses, incl. employers' contribution excl. pension expenses</b>	<b>15.5</b>	<b>14.4</b>
<b>Personnel costs – Total</b>	<b>66.9</b>	<b>63.1</b>

**Note 7 Financial assets and liabilities by category**

	Measured at fair value via the income statement	Derivatives at fair value via the income statement	Loans and other receivables/liabilities	Total carrying amount	Fair value
<b>2016</b>					
Financial assets at fair value	18,618	55	235	<b>18,908</b>	<b>18,908</b>
Other current assets	–	–	280	<b>280</b>	<b>280</b>
Short-term investments	9,538	–	–	<b>9,538</b>	<b>9,538</b>
Cash and bank balances	365	–	–	<b>365</b>	<b>365</b>
<b>Total financial assets</b>	<b>28,521</b>	<b>55</b>	<b>515</b>	<b>29,091</b>	<b>29,091</b>
Accounts payables	–	–	3	<b>3</b>	<b>3</b>
Other liabilities	–	365	586	<b>951</b>	<b>951</b>
<b>Total financial liabilities</b>	<b>–</b>	<b>365</b>	<b>589</b>	<b>954</b>	<b>954</b>
<b>2015</b>					
Financial assets at fair value	20,568	242	104	<b>20,914</b>	<b>20,914</b>
Other current assets	–	–	64	<b>64</b>	<b>64</b>
Short-term investments	5,088	–	–	<b>5,088</b>	<b>5,088</b>
Cash and bank balances	401	–	–	<b>401</b>	<b>401</b>
<b>Total financial assets</b>	<b>26,057</b>	<b>242</b>	<b>168</b>	<b>26,467</b>	<b>26,467</b>
Accounts payables	–	–	2	<b>2</b>	<b>2</b>
Other liabilities	–	25	23	<b>48</b>	<b>48</b>
<b>Total financial liabilities</b>	<b>–</b>	<b>25</b>	<b>25</b>	<b>50</b>	<b>50</b>

**Note 8 Shares and participations in listed companies and funds**

Holding	Number of shares/ units of participation	Share of equity, %	Share of voting power, %	Fair value, SEK million
<b>Equity</b>				
Castellum	13,600,583	5.0	5.0	1,699
Tobii	4,000,630	4.5	4.5	273
<b>Funds</b>				
Lannebo Micro Cap	479,473			1,747
<b>Total</b>				<b>3,719</b>

Brokerage fees paid in 2016 amount to approximately SEK 0.7 (0) million.

**Note 9 Shares and participations in unlisted companies and funds**

In such cases where AP6 controls more than 50% of the votes or otherwise has a controlling influence in a company, all investments at this level are reported, together with the share of voting power and equity. Corporate identity number and registered office are not shown for foreign holdings.

Company	Investment	Corporate Identity Number	Registered office	Number of shares/ units of participation	Share of voting rights %	Share of equity %
Amplico Kapital AB*		556703-3161	Gothenburg	5,000,000	100.0	100.0
AP Partnerinvest Sec AB*		556754-2583	Gothenburg	100,000	100.0	100.0
AP Partnerinvest Sport AB*		556736-6934	Gothenburg	90,001	90.0	90.0
AP Riskkapital AB*		556711-0407	Gothenburg	1,000	100.0	100.0
Aumar AB		556631-5932	Gothenburg	11,190	69.5	69.5
Gar Förvaltnings AB*		556312-2968	Gothenburg	10,000	100.0	100.0
Industrial Equity (I.E.) AB		556599-9702	Gothenburg	1,000	100.0	100.0
	<i>Accumulate AB</i>				24.8	24.8
	<i>Applied Nano Surfaces Sweden AB</i>				18.8	18.8
	<i>Bokadirekt i Stockholm AB</i>				28.2	28.2
	<i>CombiQ AB</i>				19.9	19.9
	<i>Flexion Mobile Ltd</i>				11.6	11.6
	<i>FPV Holding AB (Apotea)</i>				99.2	99.2
	<i>myFC Holding AB</i>				2.5	2.5
	<i>Noda Intelligent Systems AB</i>				44.0	44.0
	<i>The Local Europe AB</i>				23.3	23.3
	<i>Yanzi Networks AB</i>				18.2	18.2
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		n/a	79.2
Krigskassa Blekinge AB		556709-7992	Ronneby	30,000	50.0	50.0
NCS Invest AB (Aibel)		556914-7530	Stockholm	360,000	36.0	36.0
Neqst 3 AB		556920-9504	Stockholm	38,075	26.8	26.8
Neqst Partner 3 AB		556920-9470	Stockholm	23,101	18.1	18.1
NetSys Technology Group Holding AB*		556550-2191	Mölnadal	100,000	100.0	100.0
Nordia Innovation AB		556228-6855	Stockholm	6,357,197	3.5	3.5
NsGene A/S				403,585	n/a	n/a
Primelog Holding AB		556680-6914	Stockholm	331,552	53.4	53.4
	<i>ARRIGO Logistics Consultants AB*</i>				100.0	100.0
	<i>Financial Industrial (FIND) Consulting AB*</i>				100.0	100.0
	<i>Pagero AB</i>				7.5	7.5
	<i>Primelog Services AB*</i>				100.0	100.0
Primelog Intressenter AB		556727-5135	Stockholm	224	11.5	11.5
Salcomp Holding AB		556868-7999	Stockholm	225,000	45.0	45.0
SLS Invest AB		556730-2038	Stockholm	500	100.0	100.0
	<i>Gyros Protein Technologies Holding AB</i>				54.5	54.5
	<i>Light Sciences Oncology, Inc.</i>				21.7	21.7
	<i>Medical Vision AB</i>				86.5	86.5
	<i>OpGen Inc.</i>				1.4	1.4
Vega Ronneby AB		556762-7798	Ronneby	2,017,365	25.0	25.0
Yanzi Networks AB		556580-9554	Stockholm	1,752	35.5	35.5

Co-investments	Investment	Share of voting rights %	Share of equity %
Adagio Co-Invest L.P.	Allegro	n/a	6.1
Atos Medical Co-Invest SCSp	Atos Medical	n/a	10.2
Cinven Allegro Limited Partnership	Allegro	n/a	5.5
EQT Auris Co-Investment L.P.	Sivantos	n/a	3.8
EQT Auris II Co-Investment L.P.	Sivantos	n/a	4.2
EQT Dynamite2 Co-Investment L.P.	Sitecore	n/a	6.1
EQT Kfzteile24 Co-Investment L.P.	Kfzteile24	n/a	33.3
EQT Kiwi Co-Investment L.P.	Kuoni Travel	n/a	10.4
EQT Yellow Maple Co-Invest L.P.	Bureau Van Dijk	n/a	11.2
Farfalle L.P.	Fläkt Wood Group	n/a	100.0
FSN Capital IV Netcompany Co-Investment LP	Netcompany	n/a	58.3
FSN Capital Project Growth Co-Investment LP	Bygghemma	n/a	34.3
HgCapital Gabriel Co-Invest L.P.	Visma	n/a	12.1
NC Alexander Co-Invest, L.P.	Lindorff	n/a	13.1
NC Alexander 2 Co-Invest, L.P.	Lindorff	n/a	30.0
NC Mighty Co-Invest Beta, L.P.	eResearch Technology	n/a	18.6
Nordic Capital VIII UF Co-Invest Beta, L.P.	Unifeeder	n/a	23.3

Total cost of shares and participations in companies amounted to SEK 6,453 million (8,457).

In cases where the name of the legal entity through which the fund investment was made does not reflect the actual investment, the name of the investment is shown in brackets.

Funds	Corporate Identity Number	Registered office	Share of equity %	Cost of acquisition
Accent Equity 2003 KB	969694-7739	Stockholm	65.6	125
Accent Equity 2012 L.P.			10.0	163
AE Intressenter KB (Accent Equity 2008, L.P.)	969724-7873	Järfälla	100.0	221
AEP 2003 KB	969694-5196	Stockholm	15.8	0
Atomico IV (Guernsey) L.P.			61.5	44
Auvimo AB	556587-9565	Gothenburg	100.0	0
Auvimo KB	969621-7729	Gothenburg	100.0	21
Axcel IV K/S 2			9.7	120
Bridgepoint Europe V L.P.			2.5	254
CapMan Buyout VIII Fund B KB	969705-5342	Stockholm	100.0	199
CapMan Buyout IX Fund A L.P.			8.5	140
CapMan Equity Sweden KB	969683-1321	Stockholm	96.5	63
CapMan Technology Fund 2007 B KB	969720-4288	Stockholm	100.0	63
Carlyle Europe Partners IV L.P.			2.7	419
Chalmers Innovation Seed Fund AB	556759-5003	Stockholm	23.7	27
Creandum Advisor AB	556644-0300	Stockholm	34.0	1
Creandum I Annex Fund AB	556759-5623	Stockholm	49.2	4
Creandum II KB	969708-0274	Stockholm	98.5	114
Creandum III L.P.			18.6	141
Creandum IV L.P.			13.9	22
Creandum KB	969690-4771	Stockholm	49.3	3
Crown Global Secondaries IV PLC			n/a	14

<b>Funds (cont.)</b>	<b>Corporate Identity Number</b>	<b>Registered office</b>	<b>Share of equity %</b>	<b>Cost of acquisition</b>
Cubera VI L.P.			9.0	1
Cubera VII L.P.			15.0	96
EQT IV (No. 1) L.P.			2.4	0
EQT V (No. 1) L.P.			3.5	292
EQT VI (No. 1) L.P.			1.6	450
EQT VII (No. 1) L.P.			2.3	310
EQT Expansion Capital II (No. 1) L.P.			4.2	81
EQT Mid Market (No. 1) Feeder L.P.			8.1	410
EQT Opportunity (No. 1) L.P.			18.8	42
Eurazeo Capital II SCSp			2.9	22
Femfond KB (Nordic Capital V, L.P.)	969687-5062	Stockholm	100.0	48
FSN Capital IV L.P.			7.1	221
FSN Capital V LP			4.4	28
Fysikten KB (Nordic Capital VI, L.P.)	969712-1029	Stockholm	100.0	124
HealthCap Annex Fund I-II KB	969690-2049	Stockholm	38.9	159
HealthCap III Sidefund KB	969699-4830	Stockholm	22.7	0
HitecVision IV L.P.			1.4	14
HitecVision V L.P.			0.8	29
InnKap 2 Partners KB**	969661-4735	Gothenburg	5.9	0
Intera Fund I KY			12.0	61
Intera Fund II KY			10.0	96
Intera Fund III KY			10.0	34
IT Provider Fund IV KB	969687-5468	Stockholm	59.1	2
Nordic Capital V L.P.			3.3	37
Nordic Capital VI Alpha L.P.			5.7	199
Nordic Capital VII Alpha L.P.			2.6	480
Nordic Capital VII Beta, L.P.			2.8	385
Nordic Capital VIII Beta, L.P.			4.4	393
Northern Europe Private Equity KB (EQT III UK (No. 7) L.P.)	969670-3405	Stockholm	69.1	0
Northzone VII, L.P.			8.0	118
Northzone VIII, L.P.			7.9	38
Norvestor V, L.P.			8.5	33
Norvestor VII, L.P.			7.4	75
Permira VI L.P.			1.4	44
Scope Growth II L.P.			24.1	140
Scope Growth III L.P.			16.7	70
Silverfleet Capital Partners II L.P.			6.6	61
Sustainable Technologies Fund I KB**	969734-9620	Stockholm	100.0	59
Swedestart Tech KB**	969674-7725	Stockholm	20.6	1
Triton Fund IV L.P.			1.3	110
Valedo Partners Fund I AB	556709-5434	Stockholm	25.0	39
<b>Funds, total</b>				<b>6,960</b>
<b>Total cost</b>				<b>13,413</b>
<b>TOTAL MARKET VALUE</b>				<b>14,899</b>

\* The company is dormant.

\*\* Company is undergoing liquidation.

**Note 10 Other interest-bearing instruments**

	2016	2015
Overnight deposits	–	300
Short interest-bearing securities	9,538	4,788
Loans to unlisted companies	235	104
<b>Total</b>	<b>9,773</b>	<b>5,192</b>

**Note 11 Other current receivables**

	2016	2015
Transactions that have not been liquidated	156	–
Other	5	1
<b>Total</b>	<b>161</b>	<b>1</b>

**Note 12 Prepaid expenses and accrued income**

	2016	2015
Accrued interest income	73	47
Prepaid management fee	30	10
Other prepaid expenses and income	16	6
<b>Total</b>	<b>119</b>	<b>63</b>

**Note 13 Liabilities to credit institutions**

	2016	2015
Approved line of credit	1,500	2,000
Unutilized part	-1,500	-2,000
<b>Utilized amount of credit</b>	<b>0</b>	<b>0</b>

Utilized amount of credit is regarded as short-term, temporary financing with an estimated maturity of less than a year.

Approved line of credit within the framework of the group account structure amounts to SEK 1.5 billion.

**Note 14 Accrued expenses**

	2016	2015
Accrued interest expense	5	–
Accrued management fee	58	15
Other	9	6
<b>Total</b>	<b>72</b>	<b>21</b>

**Note 15 Other current liabilities**

	2016	2015
Transactions that have not been liquidated	511	–
Accounts payables	3	2
Other	2	2
<b>Total</b>	<b>516</b>	<b>4</b>

**Note 16 Contingent liabilities and commitments**

	2016	2015
Contingent liabilities	199	773
Commitments – capital committed, not yet paid out	11,065	6,817
<b>Total</b>	<b>11,264</b>	<b>7,590</b>

Gothenburg, 22 February 2017

Ebba Lindsö  
Chairman of the Board

Per Strömberg  
Deputy Chairman of the Board

Henrik Dagel  
Board member

Urban Lindskog  
Board member

Catrina Ingelstam  
Board member

Karl Swartling  
Managing Director

# Auditor's report

For the Sixth AP-Fund, org.nr 855104-0721

## REPORT ON THE ANNUAL ACCOUNTS

### Opinions

We have audited the annual accounts for the Sixth AP Fund for the year 2016. The annual accounts of the Sixth AP Fund are included on pages 33-51 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Sixth Swedish National Pension Fund Act and present fairly, in all material respects, the financial position of the Sixth AP Fund as of 31 December 2016 and of its financial performance for the year then ended in accordance with the Sixth Swedish National Pension Fund Act.

The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Sixth AP Fund in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Our audit approach

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the fund, the accounting processes and controls, and the industry in which the fund operates.

The Sixth AP Fund invests directly and indirectly in unquoted equity instruments to obtain return on investment, primarily through increase in values. Our audit has focused on the investments in unquoted equity instruments and the matters relating to ensure a fair presentation of investments when they are acquired, at their disposal and during the holding period.

### Other Information than the annual accounts

This document also contains other information than the annual

accounts and is found on pages 1-32. The Board of Directors and the Managing Director are responsible for this other information. Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated. If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the the Sixth Swedish National Pension Fund Act. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the fund's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the fund, to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opin-

ions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions

In addition to our audit of the annual accounts, we have audited the inventory of assets managed by the Sixth AP Fund. We have also examined whether there are any remarks against the Board of Directors' and the Managing Director's administration of the Sixth AP Fund for the year 2016.

The audit has given no reason to remark on the inventory of the assets or any other aspect of the administration.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Sixth AP Fund in accordance

with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the accounts and for the administration of the Sixth AP Fund's assets in accordance with the Sixth Swedish National Pension Fund Act.

The Board of Directors is responsible for the Sixth Fund's organization and the administration of the fund's affairs. This includes among other things continuous assessment of the fund's financial situation and ensuring that the Sixth Fund's organization is designed so that the accounting, management of assets and the Sixth Fund's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the Sixth Fund's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective for the audit of the administration is to obtain audit evidence to assess, with a reasonable degree of assurance, whether there are any remarks regarding the Board of Directors' or the Managing Director's administration of the Sixth AP Fund for the year 2016.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion.

Stockholm, February 24, 2017

Magnus Svensson Henryson  
Authorised Public Accountant  
Appointed by the Swedish Government

Susanne Sundvall  
Authorised Public Accountant  
Appointed by the Swedish Government

# Definitions and Glossary

**Return, business areas** – Profit/loss before expenses divided by average capital.

**Total return for AP6 for one year** – Measured as profit/loss for the year in relation to assets under management at the beginning of the year.

**Total return for AP6 for periods longer than one year** – Measured as average return per year.

**Buffer funds** – Comprise the First, Second, Third and Fourth National Pension (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, and partly to contribute to the long-term financing of the pension system.

**Buyout** – Investment in mature, unlisted companies with a positive cash flow. Investments are often made using debt financing.

**Co-investment** – Means that an investment is made together with one or more other owner companies. A co-investment normally means holding a minority interest.

**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).

**Due diligence** – “Company Inspection”, a work process and method for gathering and analyzing information about a company prior to an acquisition.

**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.

**EVCA** – European Private Equity and Venture Capital Association. European trade association for private equity funds.

**Fund capital** – The initial capital allocated to the Sixth AP Fund at inception, together with accumulated profits/losses.

**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.

**Investment activity** – A collective term for the assets managed by the Sixth AP Fund's business areas.

**IPEV** – International Private Equity and Venture Capital Valuation Board.

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

**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.

**Life science** – Collective term for the pharmaceuticals, biotechnology and medical technology sectors.

**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.

**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.

**Private Equity** – A collective term for shares that are not listed on an official or public market. The ownership commitment in a private equity investment is often active and has a finite term.

**Private equity fund** – A fund whose core activity consists of investing in unlisted companies and realizing the value gains in the companies.

**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 capital** – A collective term for investments in companies' equity which applies to both listed and unlisted companies. Sometimes confused with the concept “private equity”, which is the term used for investments in unlisted companies.

**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, 2 and 3. 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** – Investing in the secondary market means that the fund has been operating for a few years. An investment in the secondary market has exposure to the same companies as the original investors, but often at lower costs and with a shorter investment horizon.

**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, labor 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. All AP6 employees must sign a document to say that they have read and will adhere to the Code of Conduct. 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, dialog and consequences/controls

**Committed capital** – The capital that the Sixth AP Fund has pledged as venture capital to various funds and companies over a certain period.

**Venture capital** – Investment carried out in the early stages of a company's development. The capital that is injected is often used for product or market development.

**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.

#### **Investment approaches – Different ways of investing**

*In active private equity investments, various investment approaches are used by leading institutional investors. These are primarily the following:*

##### **Fund investment– Primary commitment**

This means that a commitment is made to invest a certain amount over time, which is then called on by the private equity fund team when investments are made in various companies. The money is returned to the system, to the investor, when an exit is made. This involves long-term commitments and is essentially based on an assessment of each private equity fund team's projected ability to, in the future, make successful investments and deliver returns.

##### **Fond investment– Secondary market**

This means buying existing interests in funds on the “second-hand” market from other institutional investors who for various reasons want to sell their interest. The potential buyer's analysis must focus not just on the skills of the private equity fund team but also on the portfolio of underlying portfolio companies that have already been invested in. In other words, a specific and detailed analysis of the portfolio companies. A secondary market investment can be an excellent complement to primary investments, for instance for the purpose of diversifying the portfolio across funds of different vintage.

#### **Direct investment**

This means investing directly in unlisted companies, receiving an ownership interest and assuming the responsibilities of ownership. This type of investment demands an entirely different approach to analysis of investments and active ownership. A direct investment always involves assuming one's responsibilities as owner. This is the case irrespective of the ownership interest.

#### **Fundraising**

This is the process that starts with a private equity firm announcing its plan to set up a new fund, the amount of capital the fund will have, and the focus of the fund's investments. Private equity firms with investment teams that have previously delivered high returns frequently see a great deal of interest from investors. Usually investors who have participated in earlier funds have a greater chance of being able to participate. Fundraising takes place during a limited period of time.





Production: Sixth AP Fund in association with Silo Design  
Photos: Johan Olsson, IStock Photo  
Translation: Dopply AB  
Printed by: Lenanders Grafiska 2017



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