

**AP6**

# 2020

**ANNUAL REPORT**

**SIXTH SWEDISH NATIONAL PENSION FUND**



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## Technical Terms

**Unlisted assets:** Unlisted companies, i.e. shares are not traded on a stock exchange.

**Risk capital and private equity (PE):** A collective term for unlisted assets/companies.

**Private equity funds:** Fund owners that invest in unlisted companies.

**Buyout:** Mature companies with an established business model.

**Secondary:** Investors in a fund wanting to divest their holdings before the fund is closed.

**Venture/Growth:** Newly started companies that typically require capital over a longer period of time in order to generate a profit.

**Fund investment/Capital commitment:** AP6 decides to invest in a fund, which is done by making a commitment to invest a specific amount. It is paid at the rate that the fund invests in companies.

**Co-investment:** AP6 invests in a company (minority investment) together with the funds where AP6 has made a capital commitment.

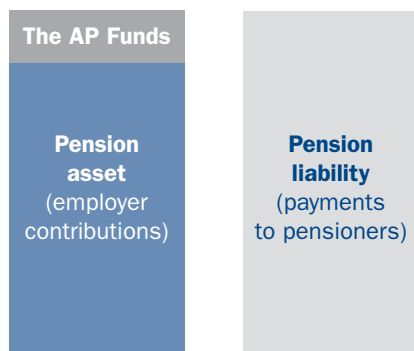
# AP6 IN BRIEF

Since the start, AP6 has contributed nearly SEK 35 billion to the nation's pension assets. It means that fund capital has grown since inception in 1996 from SEK 10.4 billion to SEK 45.2 billion at year-end 2020.

## Part of the Swedish pension system

The five AP funds (AP1-4 and AP6) are referred to as buffer capital. Together, they comprise approximately 10-15 percent of the pension system. AP1-4 are of equal size and each of them has inflows and outflows to the pension system. AP6 is a closed fund, which means that there are no inflows or outflows to the pension system.

AP6 covers its own costs and the profits from its investments are continually reinvested.



## Invests in unlisted assets

Unlike the other Swedish AP funds, AP6 may only invest its fund capital in unlisted assets, which is stipulated in the law governing its operations. Investments in unlisted assets are characterized by their longer holding periods, use of shareholders' agreements, active owners who provide capital to develop the holding over time. Special expertise, experience and long-term relationships are fundamental in order to build the confidence required for the type of investing activities that AP6 engages in.

AP6 invests by committing capital to funds and by investing in companies together with funds.

## Extensive expertise in private equity

AP6's special expertise consists of its ability to conduct own analyses and evaluations of both funds and companies. AP6 has been an active investor in unlisted assets for more than 20 years. During this time, the organization has built up a great deal of experience, extensive expertise and a wide network. Because of that, AP6 is able to, despite the tough competition with other investors, gain access to top-rated funds generating high returns.

One critical prerequisite for gaining access to attractive co-investments

is the underlying close ties with fund management teams where AP6 has made capital commitments. It is all about mutual trust that is based on expertise and experience. Since its inception, AP6 has had a very clear focus on developing and deepening its collaboration with fund management teams with the aim of establishing long-term, stable relationships.

Thanks to this thorough effort over time, AP6 has succeeded in establishing trust in the organization's ability to successfully make co-investments.

## Integrated sustainability approach

The model used by AP6 integrates sustainability into its investing activities. For all investment opportunities that are considered, sustainability is evaluated with equal weight as the other factors forming the basis for a decision. The same method is used throughout the entire holding period and when holdings are divested. As an investor in various types of businesses, sectors and geographic locations, AP6 applies a broad approach to sustainability that is based on international standards on human rights, labor rights, the environment, and anti-corruption.

AP6's Code of Conduct provides the foundation for its responsible investment activities.

# 45.2

billion (SEK) managed by Sixth AP Fund

# 7,649

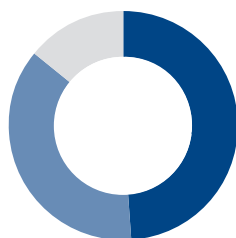
million (SEK) – profit/loss for the year

# 20.4

percent – net return 2020

# SIXTH AP FUND IN FIGURES

Sixth AP Fund manages  
45.2 billion (SEK)



- **Funds 49%**, +600 companies
- **Co-investments 37%**, nearly 60 companies
- **Liquidity, 14%**

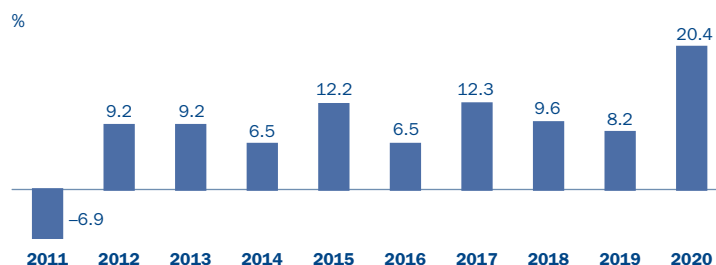
# 20.4%

Return for the year on  
capital employed

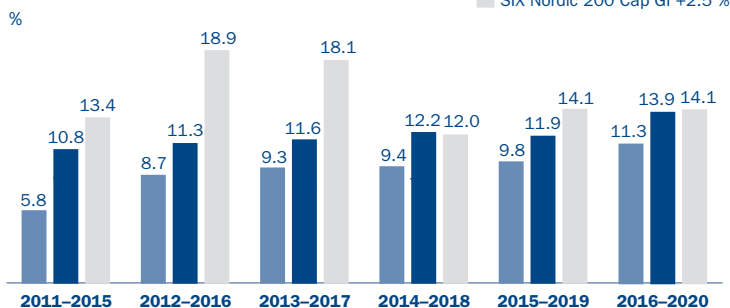
# 13.9%

Average return  
on mature investments  
for the last 5 years

## Return after costs 2011-2020



## Return after costs, 5-yr rolling, compared to target\*



\* Buyout (mature companies) is reported separately since investments in this segment are in line with AP6's strategy since 2011.

## Return over ten and five years, and in 2020

Years	2011-2020	2016-2020	2020
<b>Total buyout, %</b>	12.4	13.9	20.3
- Funds	14.2	13.0	11.9
- Co-investments	11.2	14.7	30.3
<b>Total venture capital, %</b>	3.9	25.0	22.0
- Funds	18.5	28.9	27.7
- Co-investments	-6.0	18.6	-6.5
<b>Return target</b>	13.7	14.1	15.5

## Profit/loss breakdown by segment, 2011-2020

SEK Million	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Average return, %
Buyout (mature companies)	1,104	1,566	998	971	2,177	1,424	2,718	1,998	1,839	6,770	12.4
Venture Capital (early stage)	-2,087	-131	176	196	331	192	732	1,439	686	813	3.9
<b>Return on capital employed</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>3,450</b>	<b>3,437</b>	<b>2,525</b>	<b>7,583</b>	<b>10.4</b>
Treasury management, risk management and internal costs	-397	266	686	274	359	106	20	-395	333	66	-
<b>Profit/Loss</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>3,470</b>	<b>3,042</b>	<b>2,858</b>	<b>7,649</b>	<b>8.5</b>



# PORTFOLIO EVENTS 2020

## ***Large inflow of capital and high value growth***

### **Fund Investments**

There has been a high level of activity during the year, where capital commitments totaling SEK 6.8 billion were made to 13 funds. The rate of investment is on a par with last year. The allocation between various segments is in line with the strategy, whereby eight commitments were made in the buyout segment, three to venture funds and two to funds in the secondary category.

In 2020, the commitments made in the buyout segment were predominantly to fund management teams where AP6 has previously made capital commitments: EQT, Nordic Capital, FSN, Waterland, CVC, Hg Capital Genesis and Hg Capital Saturn.

AP6 strives to construct a portfolio of funds with management teams that have developed unique models for value creation. Based on the long-term trust and mutual confidence that have been established, many of these fund management companies are also able to offer interesting opportunities for making co-investments.

AP6 also made a fund commitment to a new team in 2020, Francisco Partners, which is part of the effort to

continue building up the US portfolio. It is a relationship that AP6 considers a good fit with the other holdings. Since its inception in 1999, Francisco Partners has demonstrated success in achieving value creation through investments in more than 100 companies.

During the year, all of the fund managers were highly focused on the effect that the pandemic was having on their portfolio companies. Most of the evaluation processes and meetings that were held during the year were done through virtual platforms. And, thanks to its strong ties and well-functioning relationships with fund management teams, AP6 was successfully able to digitally monitor the progress of the portfolio companies and assess any capital requirements.

Performance of the venture portfolio was strong in 2020. New commitments were made to existing teams, Creandum Select Fund, which is focused on companies in later stage venture and Silicon Valley Bank, which invests in US venture funds. A commitment was also made to Andreessen Horowitz as part of the effort to continue building up the US venture portfolio. Two commitments were made during the year, to AlplInvest and LGT, which AP6 has previously invested in. Both of these teams have set up global secondary funds.

### **Co-investments**

There was a high rate of investment during the first few months of the year. However, the pandemic slowed down the momentum, causing processes to be more drawn out or delayed. Nevertheless, the volume of transactions increased again during the fall.

Prior evaluations supported the view that the portfolio is very resilient. Summing up the year, the conclusion is that only a few holdings with exposure to the hospitality industry have been negatively impacted. Liquidity has been injected, thereby creating the conditions for these holdings to continue being developed.

A large portion of the portfolio consists of holdings in the IT and health-care sectors, which have performed well under the prevailing circumstances.

In total, SEK 1.8 billion was invested, which is slightly below the level for co-investments last year. Several holdings were also realized during the year with great returns, examples of which are Visma, Allegro and Bygghemma. The inflow of capital during the year amounted to SEK 4.9 billion. Added to that is the high growth in value that occurred with several of the holdings in the portfolio. The strong performance from co-investments made a significant contribution to the high level of profit that AP6 was able to achieve for the year.

# CONSISTENT PRIVATE EQUITY STRATEGY GENERATES HIGHEST PROFIT SINCE INCEPTION

In a year that was dominated by the global pandemic, our well-diversified investment portfolio of private equity investments demonstrated both resilience and strength. Our consistent strategy and integrated sustainability efforts, have demonstrated its strength and delivered good value growth. The portfolio strategy, of carefully chosen funds in combination with co-investments made with fund management teams that we have been working with over long periods of time, has generated our highest profit to date of SEK 7.6 billion, and a return of 20.4 percent.

**T**he year started off with a high level of activity, along with very favorable macro and market conditions. Although there was concern about a leveling off, we were confident that our well-constructed portfolio would demonstrate resilience in the event of a market downturn. Within the organization, many of our discussions were focused on sustainability and the digital transformation of society.

Then, already in the first quarter, the downturn that many had predicted materialized, yet in a form that no one had imagined or could have positioned themselves for: a so-called Black Swan event called COVID-19. The world as we knew it was fundamentally transformed over the course of just a few weeks, with synchronized shut-downs occurring across the globe

to protect citizens from a feared virus that we knew little about.

At AP6, we adapted our organization early and quickly. The transition to working from home was easy, thanks to the digital infrastructure that we already had in place. We began carefully monitoring the macro situation and identifying both the capital and liquidity risks in the portfolio.

Based on our long-term investment focus, we decided early on to continue pursuing our investing activities, albeit selectively, and by prioritizing our existing long-term relationships and holdings. It also became evident that the central banks throughout the world were intent on making sure that the health crisis would not fuel a financial crisis.

Our analysis of the portfolio's resilience was proven correct, since our exposure to

sectors most affected by the shut-downs was, and still is, limited. During the year, fund commitments totaling SEK 7 billion were made, along with co-investments for approximately SEK 2 billion. Compared to 2019, fund commitments were slightly higher and co-investments were slightly lower in 2020. The rate of investment was good, considering an unusual and extraordinary year.

During the second half of the year, it became evident that our portfolio was not only resilient, but also well-diversified and strong, generating the highest profit for AP6 to date, at SEK 7.6 billion. The return from the investment portfolio was an impressive 20.4 percent.

These earnings were generated by a large number of different investments, both realized and unrealized, with the co-investment





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portfolio contributing more than SEK 4 billion and the fund portfolio contributing more than 3 billion. The amount of our divestments exceeded our investments for the year, which, in combination with the positive currency effects, increased AP6's liquidity in this year of pandemic. Our average annual return during the last five years increased to 11.3 percent. Since 2011, we have succeeded in generating a stable annual return of 8.5 percent on average and creating a portfolio the size of which has grown to SEK 45 billion.

The solid investment strategy that we work with, and which was also externally verified during the year, creates a stable platform for continuing to implement the long-term portfolio strategy that was adopted by the Board in October 2020. We have pursued a straightforward investment approach, of selectively and methodically building up an investment portfolio of quality funds and co-investments in private equity together with integrated sustainability efforts. It provides a solid foundation for generating a good, risk-adjusted return over the long term to the Swedish pension system.

Our strategy is solidly based on making traditional private equity investments in the buyout segment via fund commitments and co-investments. Commitments are also made to high-performing venture and growth funds, along with well-diversified secondary funds.

Given the long-term investment horizon, we must also have a very clear sustain-

ability focus. Sustainability risks must be assessed using a long-term perspective, with concentrated evaluation efforts and in close collaboration with our fund management teams. In order to deliver value over time, the investments must have certain key characteristics, such as a long investment horizon and sustainable value creation.

Furthermore, our portfolio must be based on future successful business models and requirements. Although sustainability efforts have now permeated all aspects of the management industry, we must still pursue our other focus areas, i.e. gender equality and diversity, and we expect much progress there over the coming years.

The earnings we have generated would not have been possible without AP6's dedicated employees and our clear focus. Much hard work has gone into creating the portfolio that has now delivered the highest profit in AP6's history. Approximately 30 employees work at AP6 and each is dedicated to creating our unique investment platform that is entirely focused on unlisted assets. We have achieved this by combining our expertise and applying it to the task of strategically designing fund commitments. We are also adept at selecting, evaluating and quickly executing co-investments. And our sustainability efforts permeate all of it.

*Gothenburg, February 2021*

Katarina Staaf

Managing Director, Sixth AP Fund

# UNIQUE CONDITIONS IN A COMPLEX MARKET

An experienced organization entirely dedicated to investing in, and managing, private equity. AP6 possesses unique expertise when it comes to making both fund investments and co-investments in private equity. It makes AP6 a relevant partner for many of the most attractive fund management teams and the most interesting co-investments. It has resulted in the creation of a portfolio consisting of quality fund holdings and co-investments.

**A**P6's strategy for creating an investment portfolio that is able to generate a stable, sustainable return with balanced risk to the Swedish pension system is based on the Board's interpretation of the Sixth National Pension Fund Act (2000:193). It stipulates that AP6's assets must be invested in the unlisted market, i.e. private equity.

AP6's investment portfolio is comprised of both fund investments and co-investments, because it has been assessed that this combination will result in high value creation aimed at achieving a high risk-adjusted return that is sustainable and resilient over time. The investment portfolio has been set up as a closed fund, which is required by law. As large a share as possible has been invested in the active private equity portfolio, with any excess liquidity invested at low risk to generate a good return.

## STRATEGIC PORTFOLIO

The overall aim is to, over time, construct a well-diversified portfolio with a steady rate of investment over time and geographic diversification.

AP6 is continuously striving to identify the optimal combination of fund investments and co-investments when creating a strategic portfolio where sustainability has been fully integrated into the business. This applies to all aspects of the business, including leadership, investing activities and AP6's internal processes.

The investment organization works systematically, selectively and proactively to gain access to the very best funds in each segment, along with the best co-investments.

New fund management teams to partner

**“New fund management teams to partner with are carefully selected based on the criteria that the relationship should benefit the entire investment business and result in more opportunities for making co-investments.”**

with are carefully selected based on the criteria that the relationship should benefit the entire investment business and result in more opportunities for making co-investments.

The organization's in-depth and expansive expertise is a prerequisite for the qualitative process. The teams working with fund investments and co-investments each have their own specialist expertise. They also share experiences of prior and existing collaborations with various partners.

## FUND INVESTMENTS

The fund investment team follows a long-term strategy of building up a geographical-ly diversified portfolio allocated across the buyout, venture, growth and secondaries segments. A great deal of focus is on establishing close, in-depth collaboration with the teams managing each fund where AP6 has made a capital commitment.

It takes time to build trust. The foundation for trust is always, however, professionalism and mutual respect for each other's expertise. All of these aspects are fundamental to AP6

gaining access to attractive co-investments.

Many individual meetings are held on a continual basis with fund management teams to discuss such things as the market situation, development of the portfolio companies and work with sustainability.

AP6 has fund management companies in its portfolio that it has been working with for more than 20 years. The organization has, thanks to its extensive expertise and wide network, been successful in gaining access to fund managers ranked among the best in their respective investment areas.

## CO-INVESTMENTS

One critical prerequisite for gaining access to attractive co-investments is the underlying close ties with fund management teams where AP6 has made capital commitments. It's all about mutual trust that is based on expertise and experience. Thanks to this conscientious effort over time, AP6 has succeeded in establishing trust in the organization's ability to successfully make co-investments.

Co-investments are in general to be regarded as minority investments, which ideally are made together with existing funds where AP6 has committed capital.

A number of co-investments consist of large and stable investments where the risk-adjusted return is judged to be attractive. Concentration risk to individual companies is higher in the co-investment portfolio compared to fund investments. A defining characteristic of the holdings is the strong focus on growth. Many are active in markets where there is strong organic growth, others focus on value growth via a long-term acquisition strategy.



# ROBUST PORTFOLIO WITH GOOD RETURN

The performance of the investment portfolio in 2020 demonstrates that it is both very resilient to market risks and that it has underlying potential for generating a very good return.

**A**P6's net profit for 2020 amounted to SEK 7.6 billion. The profit on capital employed amounted to SEK 7.6 billion, of which SEK 3.2 billion is attributable to fund investments and SEK 4.4 billion to co-investments. It corresponds to a return of 20.4 percent.

In 2020, the investment portfolio demonstrated its strong resilience to market risks and underlying potential for generating a very good return. The return for the buyout portfolio was 20.3 percent and the contribution from co-investments was a return of 30.3 percent. The return for the venture portfolio was 22.0 percent, the majority of which is attributable to a specific fund return of 27.7 percent. The contribution analysis shows that the positive earnings trend is well distributed across the fund portfolio. Most of the fund's external fund management teams have had positive results. For co-investments, the situation is much the same, with a widespread positive earnings contribution across the portfolio, although the exceptional performance of a few specific co-investments stood out from the rest. Only a few co-investments are exposed to sectors that have been particularly hard hit by the pandemic. The effect on the portfolio is very limited.

Evaluation of the return for unlisted

shares should be made over a long period of time given that quoted prices are not available in the same way that exists in the market for listed.

AP6 has a solid, established strategy for making investments in selected funds in the categories of buyout, secondary and venture/growth. Most of the strategy is focused on buyout, where AP6 makes both fund commitments and co-investments. A smaller portion of the portfolio consists of fund commitments within the secondary and venture/growth categories. As a rule, co-investments are not made in this portion of the portfolio.

During the year, AP6 embarked on an initiative to evaluate the current strategy and composition of the portfolio, aimed at assessing future return potential and risk. External verification of the portfolio composition was carried out and alternative compositions were simulated. The Board then concluded that its current strategic focus is valid.

Over time, AP6 has created a portfolio consisting of quality fund holdings and co-investments. Its relationships with fund managers also have great potential for generating a good, stable return with balanced risk over the long term.

Despite the pandemic, AP6 continued making investments in accordance with

its strategy, but was only able to establish a limited number of new relationships with fund management.

It is evident that AP6 continues to be an attractive partner because of its special mandate of entirely focusing on private equity and reputation in both fund and co-investments.

AP6 currently has a carefully compiled portfolio with a high return potential at balanced risk, along with a suitable level of liquidity. The portfolio's potential is good and it is expected that the future distributions from divestments will be able to be reinvested at a risk-adjusted return in line with the established strategic direction.

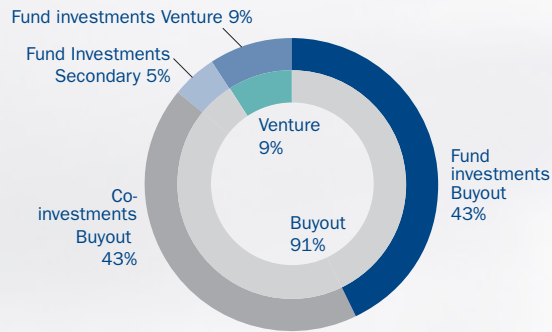
## Sixth AP Fund manages SEK 45.2 billion



- Funds 49%**, +600 companies
- Co-investments 37%**, nearly 60 companies
- Liquidity, 14%**

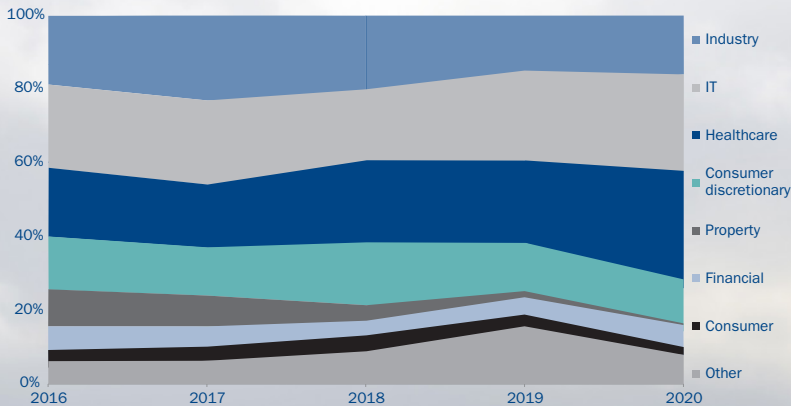
# CAPITAL EMPLOYED (SEK 39 BILLION)

**Capital employed across market segments**

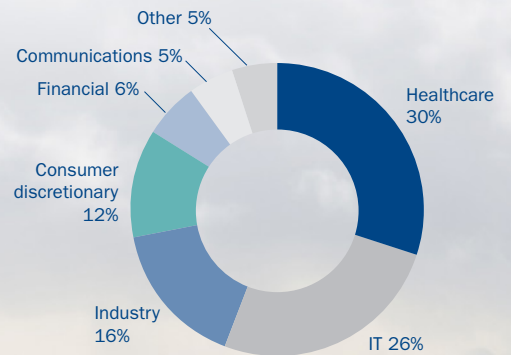


## SECTOR AND INDUSTRY

**Good sector diversification in the portfolio**

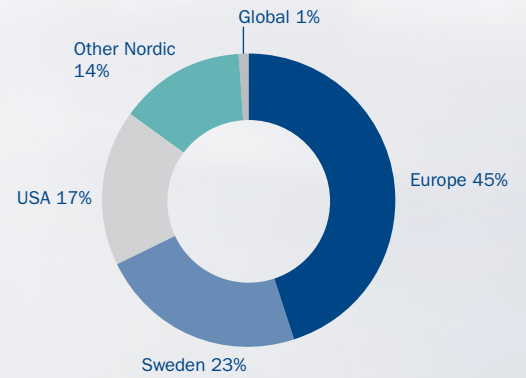
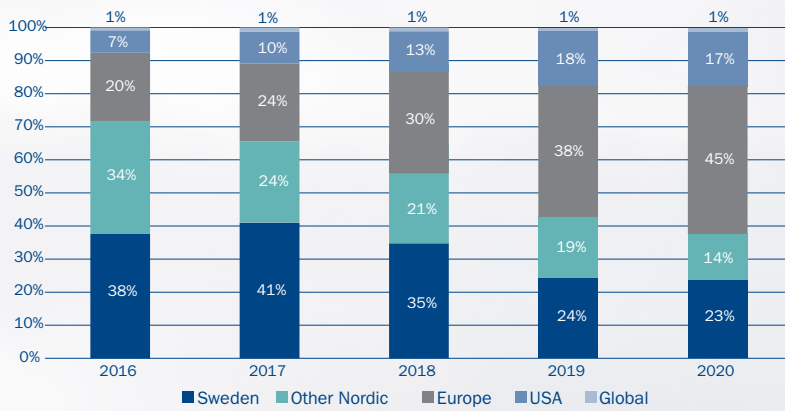


**Industry break-down**



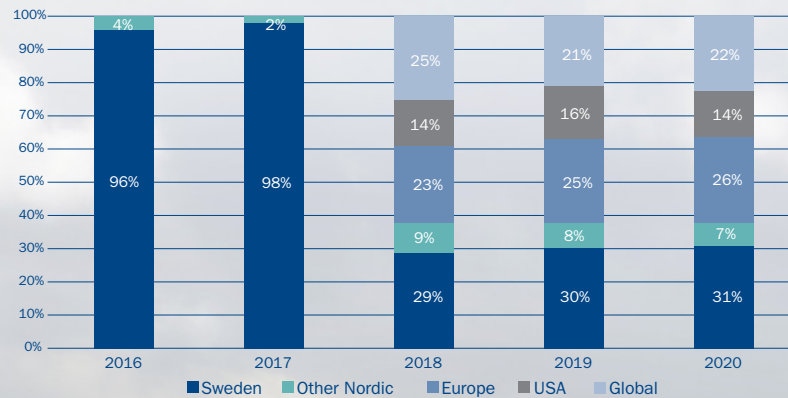
# GEOGRAPHIC LOCATION

A more international portfolio over time



# LIQUIDITY

Treasury management

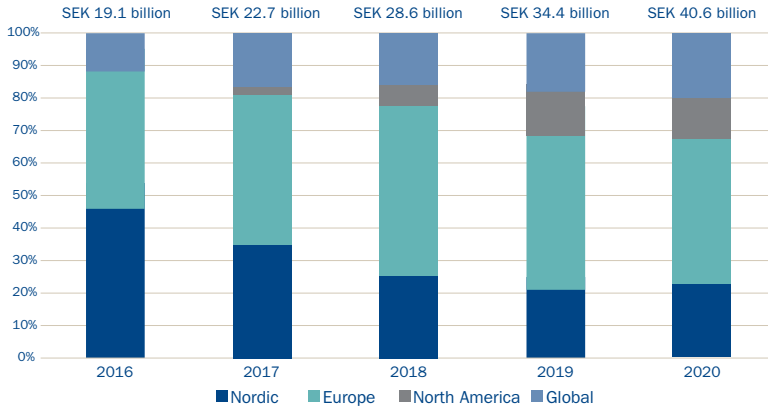




# FUND INVESTMENTS

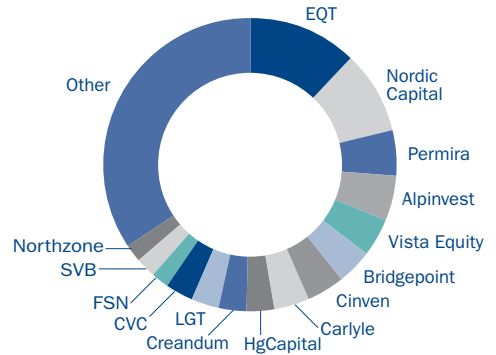
## Geographic focus, investments in funds

The amounts show total exposure (market value + remaining committed amount)



- For Fund Investments, total managed assets amounts to SEK 22.4 billion. The remaining committed capital, which will be invested by the funds during the next 3-5 years, amounts to SEK 18.2 billion
- The portfolio contains more than 30 private equity firms managing more than 100 funds that are invested in more than 600 portfolio companies

## Major fund investments



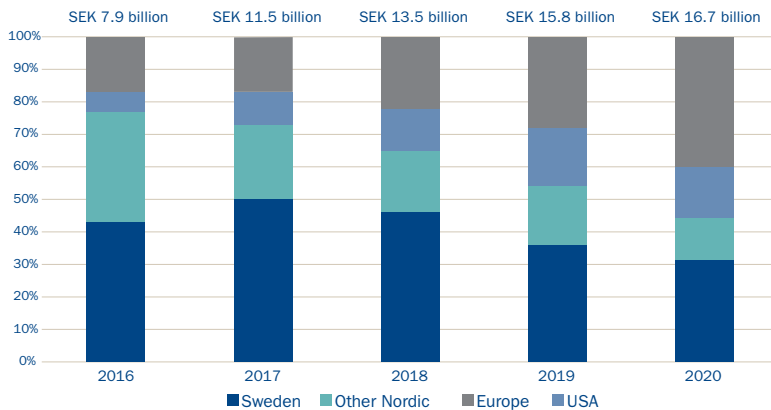
- Approximately 91 % of invested capital is in the buyout segment and 9 % is in venture
- In 2020, commitments were made to around a dozen funds, for a total of SEK 6.8 billion

# CO-INVESTMENTS

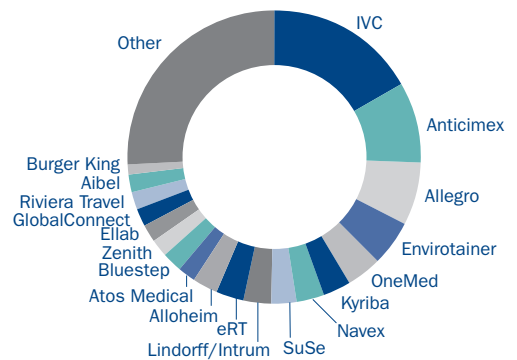
- For co-investments, total managed assets amounts to SEK 16.7 billion
- The portfolio consists of nearly 60 holdings
- Approximately 83 % are co-investments made together with GPs and approximately 17 % were made with other co-investors
- The 15 largest holdings have, on average, a market value of around SEK 900 million each
- In 2020, five new co-investments were made

## Geographic location of portfolio companies

Amounts reflect the exposure



## Major co-investments



# SUSTAINABILITY REPORT

2020 has been a year of major challenges for the entire global population, also, for those working in the private equity sector. With COVID-19 and the global movement against racism, there is more focus than ever on sustainability issues such as health and safety, working conditions, inequality and discrimination as well as use of resources, climate, biodiversity and deforestation. During the year, AP6 has continued to promote sustainability in the private equity industry by reviewing, monitoring and engaging in a dialogue with stakeholders in a structured and systematic way.

## SUSTAINABILITY EVENTS 2020



### Highest score by PRI

AP6 received the highest possible score (A+) for all three evaluated parts of the PRI report.



### Annual ESG assessment

All of the fund management teams that were asked to participate took part in AP6's ESG assessment for 2020. The results indicate that there is continued focus on ESG issues in AP6's investment portfolio.



### Expanded stakeholder engagement

During the fall, AP6 used an online survey to gather feedback from its external and internal stakeholders on AP6's sustainability approach as well as the broader mandate of the fund.



### Integration of external ESG database

To supplement the existing monitoring routines for AP6's investments, the organization added an external news and analysis tool.



### Industry collaborations & digital events

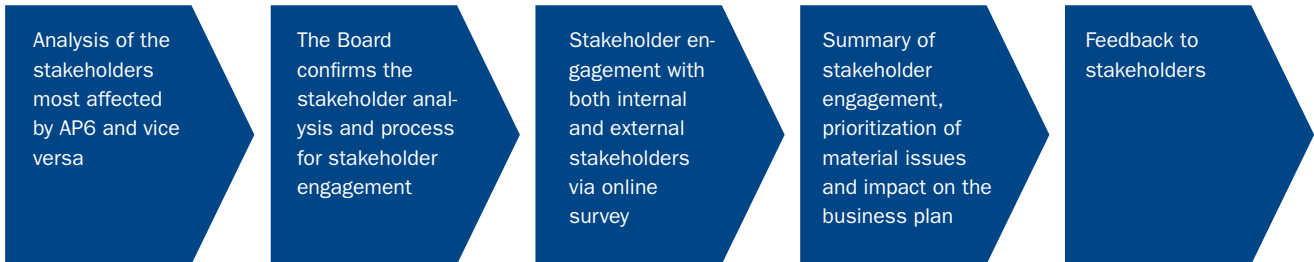
In 2020, AP6 participated in several industry collaborations as well as digital events around ESG in private equity.



### Work environment and adaptation

With the onset of the COVID-19 pandemic, AP6 quickly transitioned to working from home in order to safeguard the health of its employees, ensure business continuity and help limit the spread of the virus in society.

# STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT



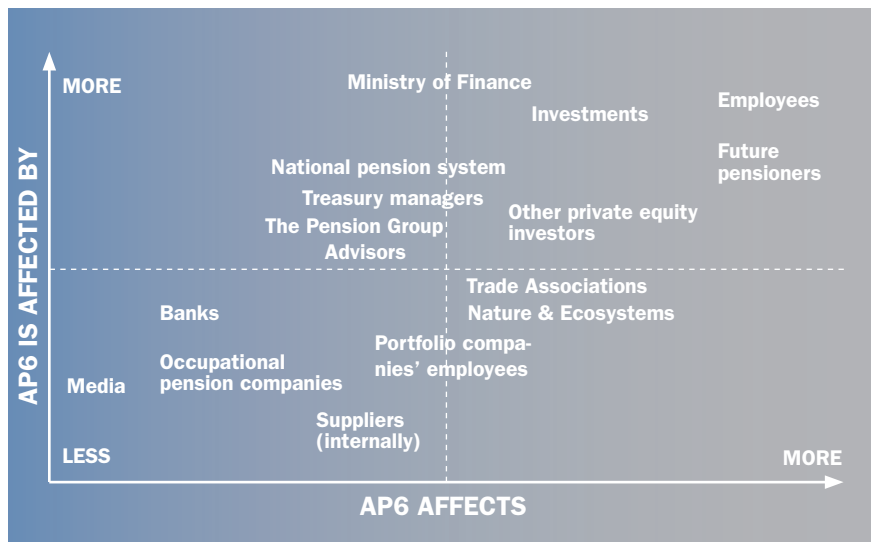
**A**s a state-owned pension fund, AP6 must stay in tune with its stakeholders' expectations on a wide spectrum of issues, even though, ultimately, its operations are governed by the Sixth National Pension Fund Act (2000:193). At regular intervals, AP6 carries out a more structured, in-depth stakeholder analysis to supplement the ongoing dialogue it has with owners, employees, investments, NGOs and others. In 2020, AP6 mapped its stakeholders based on a broad perspective of those who are most affected by AP6 and vice versa (see illustration).

The analysis was conducted by AP6's employees and then confirmed by the executive management team and Board of Directors. These stakeholders were then contacted and asked to complete an online survey. In total, 47 external stakeholders representing investments, NGOs, pensioners' organizations, trade unions, students and trade associations were contacted. All AP6's employees were also invited to participate. The response rate was high, at 90% for employees and 73% for external stakeholders.

The results revealed that stakeholder expectations on AP6 are still much the same as they have been in the past. Creating a return for pensioners and maintaining public confidence are prerequisites for AP6's existence. Making responsible investments remains an important component of being able to fulfill its mandate. Other important

aspects are having a well-functioning organization, skilled employees, openness, transparency and good governance, all of which form the basis for generating a long-term, high return to the Swedish pension system over time. Since 2017, there is however greater consensus among stakeholders on the importance of integrating sustainability in investing activities. Climate change has the highest priority of all sustainability related topics, even though a wide range of other sustainability issues are relevant to consider in a diverse, unlisted investment

portfolio. There was also a broad consensus on AP6's sustainability approach and what is important to develop going forward. For all categories of stakeholders, the fundamentally most important priority for AP6, as a state-owned pension fund, is generating a long-term, high return. Colleagues in the finance sector, trade unions as well as NGOs also highlighted the importance of linking climate change and the UN Sustainable Development Goals to AP6's investment activities. Climate has been a focus area within AP6's responsible invest-



## AP6's most important stakeholders, established by its Board of Directors

The stakeholder groups most affected by AP6 and vice versa, according to the stakeholder analysis, are shown in the upper right part of this matrix. These are the stakeholder groups that participated in the 2020 survey. Future pensioners were represented by students and trade unions. Some NGOs were included as representatives for "Portfolio companies' employees" and "Nature & Ecosystems".



ment approach for a number of years. The results from this recent survey reinforce that AP6 should continue developing its work in this area. AP6 will thus be taking the next steps forward by investigating ways of setting scientific targets for the investment portfolio to ensure that its investments are aligned with the Paris Agreement as regards climate change. Results from its engagement with stakeholders also reveal that there is high confidence in AP6 as an organization, which applies to its work both prior to making and after having made an investment. The level of confidence was also high for AP6's overall sustainability approach and sustainability reporting. As always, there is however room for improvement. From this survey, AP6 has obtained valuable feedback that will be used to further integrate sustainability going forward.

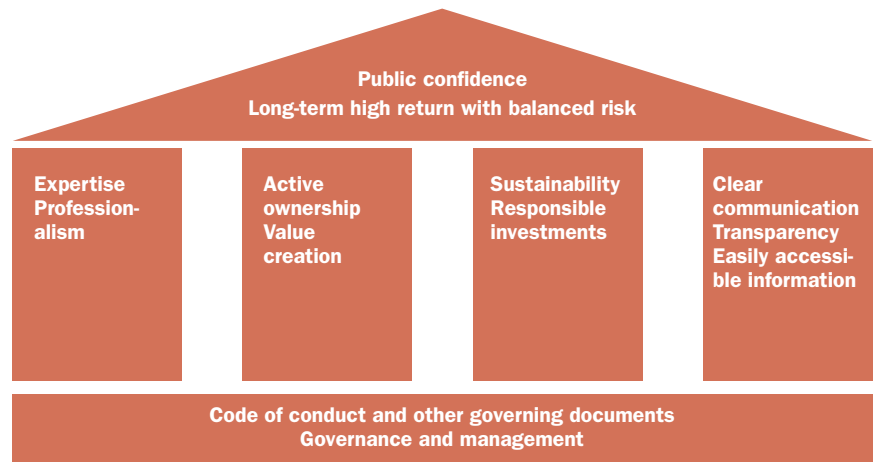
AP6's stakeholder engagement and the results from this most recent survey have been discussed within the organization and reported to both the Sustainability Committee and Board of Directors.

## Materiality Assessment

**Creating a return for pensioners and maintaining public confidence are prerequisites for AP6's existence.**

It requires:

- Expertise and professionalism of AP6 employees
- Disciplined, systematic value-creation within the scope of a clear investment strategy
- Active efforts with responsible investments based on a wide sustainability perspective encompassing human rights, labor rights, the environment and anti-corruption
- Good business ethics and morals
- Clear communication and easily accessible information about operations
- Openness and transparency



### AP6's model for meeting the requirements of legislators and stakeholders

To meet its stakeholders' requirements and expectations, AP6 has a model that is based on its code of conduct and investment strategy. Four pillars stem from that foundation, which are the specific competencies and values required. The foundation and pillars create the conditions for AP6 being able to deliver a long-term high return and maintain public confidence.

## Feedback from stakeholders

**Stakeholders:** AP6 should clarify and communicate its position on material sustainability issues.

**AP6:** AP6's Code of Conduct is available at [www.ap6.se/en/](http://www.ap6.se/en/). Goals and results within the field of sustainability are reported each year in the Sustainability Report and the PRI Report. During 2020, exclusion criteria for investing activities were adopted (see page 16 and [www.ap6.se/en/](http://www.ap6.se/en/)) as a supplement to the existing review routines and methods for selection. There are, however, additional areas that AP6 could develop and refine.

**Stakeholders:** AP6 could develop its climate efforts and more clearly link them to the Paris Agreement and UN Sustainable Development Goals.

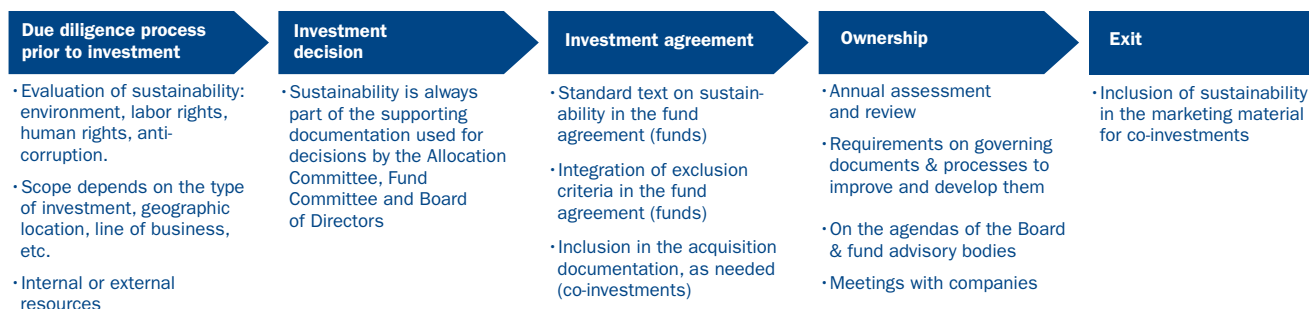
**AP6:** In December 2020, when the Board adopted sustainability targets-going forward, a new goal was also adopted, namely, that AP6's investments should be aligned with the global climate goals stated in the Paris Agreement. In 2021, a more concrete plan for implementation will be created.

**Stakeholders:** It would be desirable for AP6 to disclose more concrete information related to the sustainability performance of investments.

**AP6:** One of the biggest challenges when integrating sustainability in an unlisted portfolio is the limited access to systematic and comparable sustainability data. In the industry as a whole, however, our perception is that there is much focus on sustainability reporting. Many fund managers require some sort of sustainability report. But, what that looks like can differ significantly between funds. Depending on the size and stage of maturity, some companies may already publish their sustainability reports, or are preparing to do so. Given the limited access to comparable sustainability data, AP6's approach focuses on providing clear requests for integration of sustainability and subsequent monitoring of processes for responsible investment (see page 15). For the areas of climate, diversity and inclusion, it is possible to monitor and report on this more concretely (see pages 17-20).

# RESPONSIBLE INVESTMENTS

## SUSTAINABILITY IS AN INTEGRAL PART OF AP6'S INVESTMENT ACTIVITIES AND HOW IT GENERATES VALUE



For AP6, responsible investments and sustainability are prerequisites for delivering a long-term high return. Sustainable development is fundamental to the well-being of future generations and for generating an economic return to future pensioners. As a Swedish, state-owned pension fund, AP6 can and should be a forerunner for responsible investments and sustainability. At AP6, the Chief Sustainability Officer and Sustainability Manager lead the work of making responsible investments in close collaboration with Investment Directors, who are responsible for daily work with sustainability in companies and funds.

The sustainability function is also supported by an ESG team, which consists of employees from various AP6 departments. The ESG team contributes expertise and assists with integrating sustainability into all of AP6's processes. Since 2013, sustainability has been an integral part of AP6's investing activities, e.g. as a component of the review and follow-up on investments.

As an investor in various types of businesses, sectors and geographic locations, it is necessary to have a broad approach to sustainability, based on international agreements on human rights, labour rights, the environment and anti-corruption. AP6's Code of Conduct provides the foundation for its responsible investment activities. Each year, the Board establishes sustainability targets for investing activities, which is reported in this section. For 2020, the level of fulfillment rose slightly for some targets,

but fell for others. The investment portfolio changes from year to year, so caution should be exercised in drawing conclusions. For some new co-investments, a formal code of conduct did not exist at the time of in-

vestment, but these things tend to improve with time. It was not possible to carry out sustainability focused meetings with co-investments due to the pandemic.

### LONG-TERM GOALS FOR FUND INVESTMENTS

Area	Targets	Status
<b>Leader in sustainability for PE Europe</b>	Score of at least A from PRI's assessment	A+
<b>Code of Conduct</b>	Must be in place for all significant holdings	100 % (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	75 % (75)
<b>Climate</b>	Funds corresponding to 80 % of the value in the portfolio for fund investments should address climate issues (climate impact, climate strategy or similar)	62 % (60)
<b>Diversity and inclusion</b>	AP6's fund investments and their portfolio companies must address equality/diversity in their organizations	Page 17
<b>Develop and improve sustainability over time</b>	There should be a positive trend regarding ESG development in the fund portfolio (based on annual change of ESG evaluation)	Page 15

### LONG-TERM GOALS FOR CO-INVESTMENTS

Area	Targets	Status
<b>Leader in sustainability for PE Europe</b>	Score of at least A from PRI's assessment	A+
<b>Code of Conduct</b>	Must be in place for all significant holdings	91 % (93)
<b>Sustainability report</b>	Companies corresponding to 80 % of the value in the portfolio for co-investments should report in line with GRI or similar reporting guidelines	43 % (48)
<b>Climate</b>	Companies corresponding to 80 % of the value in the portfolio for co-investments should report GHG emissions and document climate-related risks & opportunities	43 % (34)
<b>Diversity and inclusion</b>	AP6's investment partners and their portfolio companies must address equality/diversity in their organizations	Page 17
<b>Sustainability meetings with portfolio companies</b>	Three meetings per year	0 (3)

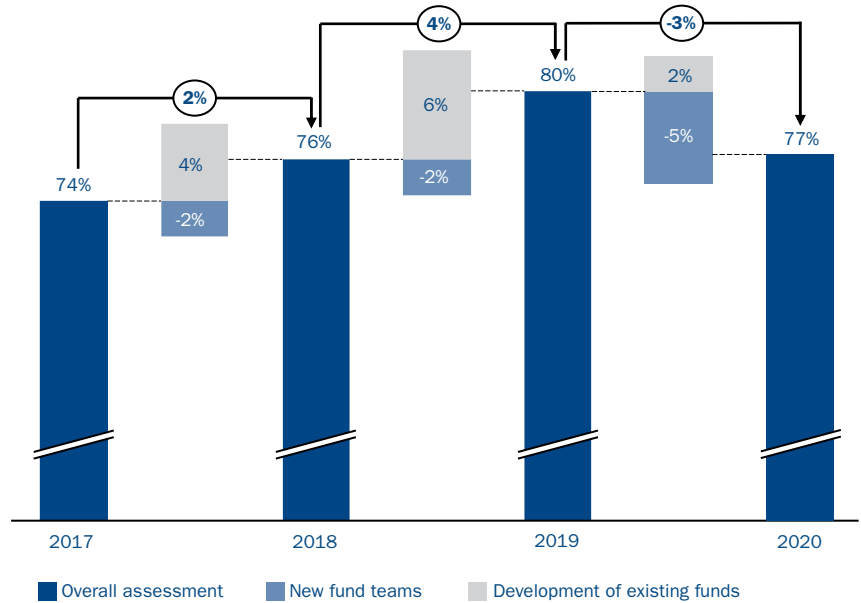
### ESG ASSESSMENT OF FUNDS

In 2020, AP6 met with 28 fund managers as part of the annual ESG assessment. Despite the ongoing pandemic, all of the fund management teams that were asked participated and AP6's fund investments continued to make progress in the field of sustainability.

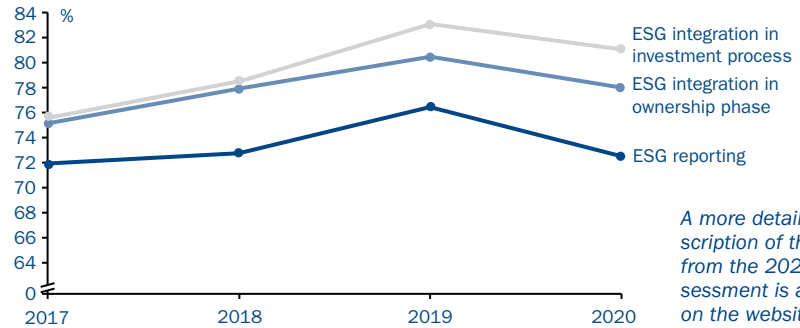
For several years, AP6 has been carrying out ESG assessments of funds and providing feedback along with examples of good practice. These assessments cover the fund's processes for integrating sustainability when they invest in companies and during the holding period. Sustainability reporting was also assessed. The assessments focus on the processes for ESG integration. They do not assess the actual impact that portfolio companies have on people and the environment. The reason for this limitation is that there simply isn't enough comparable information available on the actual impact of the investments that AP6 makes. AP6 believes that as the processes for ESG improve over time, a positive contribution will be made to the actual impact from portfolio companies.

AP6 uses its own model for this, which is aligned with an industry-specific template for sustainability evaluation of fund managers in the unlisted investment asset category. Over time, the ESG processes have been improving for the funds in AP6's portfolio. This has occurred even though some of the new funds, with less developed processes, have negatively impacted this trend. During 2020, the existing funds in the portfolio had a positive trend. Some of the new fund investments, however, were at a lower level when they first were included in the ESG assessment. This is why the overall result for

### Lower overall result, but improvement with existing holdings



### New holdings start lower, affecting results in all areas assessed

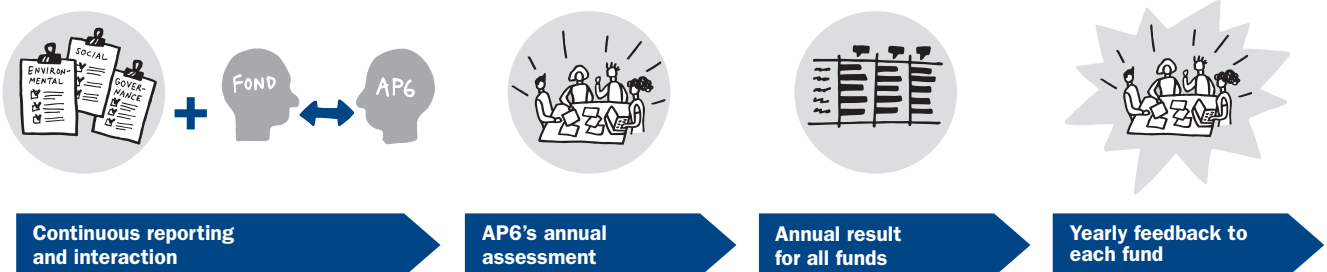


A more detailed description of the results from the 2020 ESG Assessment is available on the website ([www.ap6.se/en/](http://www.ap6.se/en/)).

the 2020 assessment fell slightly. The overall assessment, however, is that all of the funds have an ambition to develop their sustainability approach and many have made

substantial progress. Just as in prior years, funds with formalized ESG processes and a high level of ESG expertise received the highest scores.

### AP6'S TEMPLATE FOR ESG ASSESSMENT AND MONITORING OF PE FUNDS.





## POTENTIAL INVESTMENTS THAT AP6 DECLINED BASED ON ESG ASPECTS

Each year, AP6 considers many new investment opportunities. AP6 assesses each potential investment based on its own characteristics. The decision to decline an investment is often due to several factors, like commercial considerations, terms & conditions, sustainability, etc. This is why each investment opportunity is thoroughly considered from a variety of aspects. All companies face sustainability challenges. Many deal with them via an active approach to sustainability, while others need to become more engaged. There are certain types of operations, however, that AP6 always avoids because they are simply not compatible with sustainable development and responsible investment activities. Examples are weapons, tobacco, pornography and certain types of fossil fuels. The formal exclusion criteria were developed in 2020 so that exclusion from certain types of indirect investments would be possible. For more information on the exclusion criteria, please see [www.ap6.se/en/](http://www.ap6.se/en/).

Investment type	Situation	Motivation
Fund	Assessment of fund with investments in mature companies. AP6 decided not to proceed with the evaluation.	Overall assessment of company culture, equality/diversity and ESG.
Indirect holding in fund	One of the funds in AP6's portfolio acquired a company with some exposure to the nuclear weapons industry. With reference to the exclusion criteria, AP6 could refrain from investing.	AP6 does not invest in companies that are involved in the nuclear weapons industry. Nuclear weapons are listed in AP6's exclusion criteria.

## EXAMPLES OF ESG-RELATED INCIDENTS IN THE PORTFOLIO, 2020

AP6 is a demanding investor in many ways, e.g. when it comes to such things as information dissemination and how potential incidents are managed. AP6 expects quick, clear feedback from companies or funds if any ESG-related incidents arise. Very few ESG-related incidents were reported in 2020. The incidents reported below have been assessed as more serious in nature.

Investment	Event	Action taken by AP6	Status
Co-investment	Allegation of a violation of human rights in the supply chain.	Dialogue on investigation, action and preventive measures.	The company decided on certain remedial measures which are being implemented.
Indirect holding in fund	Data security breach and leakage of sensitive personal data.	Dialogue on investigation, action and preventive measures.	The fund management team and company have implemented a variety of measures and are cooperating with the authorities and investors.

## MEMBERSHIPS

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

Institutional Limited Partners Association, ILPA, [www.ilpa.org/](http://www.ilpa.org/)

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

Swedens Forum for Sustainable Investments, SWE-SIF [www.swesif.org/](http://www.swesif.org/)

## 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 (previously Carbon Disclosure Framework), [www.cdp.net](http://www.cdp.net)

## PRI'S ANNUAL ASSESSMENT

As a signatory of PRI, AP6 reports each year in accordance with PRI's responsible investment reporting framework. Based on the report, PRI compiles a confidential assessment report, where A+ is the highest possible rating.

In the latest assessment, AP6 received the following ratings:

*Strategy and governance:* A+

*Indirect investments (funds):* A+

*Direct investments and active ownership in unlisted companies:* A+

% of PRI requirements that must be met to obtain a specific rating / Rating scale					
0% E	>0-25% D	>25-50% C	>50-75% B	>75-95% A	>95% A+
<b>AP6</b>					
<b>Median rating</b>					
<b>AP6</b>					
<b>Median rating</b>					
<b>AP6</b>					
<b>Median rating</b>					

- Strategy and governance
- Indirect investments in private equity funds
- Direct investments and active ownership in unlisted companies

# DIVERSITY AND INCLUSION



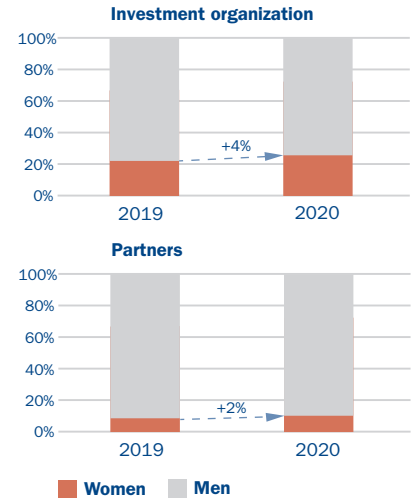
In 2020, AP6 participated as a speaker in several digital conferences and panels, which had been arranged by such organizations as SuperInvestor, PEI (Private Equity International), KvinnoKapital (a private network of women in asset management), PRI (Principles for Responsible Investment) and ILPA (Institutional Limited Partners Association). Several of them had a specific focus on diversity and inclusion.

For quite some time, diversity and inclusion has been a focus area within AP6's sustainability approach. Part of this has involved making changes within the organization by, for example, stating requirements on higher diversity in AP6's recruiting processes. AP6 also strives to improve diversity and inclusion in its portfolio of holdings. Since 2016, diversity and inclusion are always among the items evaluated when reviewing and monitoring investments. It involves asking questions (both prior and subsequent to making an investment) on what is being done to increase diversity in funds and portfolio companies. The AP6 Board of Directors has also, for 2021, formulated quantitative targets for gender equality in the portfolio.

Gender equality in investment teams

and the management teams for AP6's fund investments has been reviewed, revealing that the underrepresented group (women in this case) increased for both groups (4 % and 2 % respectively) between 2019 and 2020. Approximately two-thirds of the fund management teams actively strive to support the portfolio companies so that equality and diversity can improve. And an equally large percentage report on diversity and inclusion to their investors. AP6 has, in its discussions with fund managers and portfolio companies, noticed a genuine desire to increase diversity and inclusion. There is an awareness that, a higher level of diversity among employees makes organizations more attractive to younger generations, and, that it leads to both better decisions and better results over time.

## Gender balance in private equity firms



## Work with portfolio companies



"Are you supporting your portfolio companies to increase diversity and equality?"

## Reporting to investors



"Are you reporting information about diversity to your investors?"



# CLIMATE

Since 2015, AP6 has played an active role in promoting an increased focus on climate change in PE. Climate change is a threat to future economic prosperity, since it undermines the stable climate required for human activity. AP6 is part of the Swedish pension system, with the mandate of securing pensions for many generations to come. As such, climate change is a prioritized topic.

Companies that AP6 invests in both impact, and are impacted by, climate change. The scope of this includes how

the company's operations are affected by extreme weather and higher temperatures, as well as changes in taxes, fees and other legal requirements. The transition to a climate-neutral economy creates opportunities such as higher energy efficiency, innovation and new business areas.

## CLIMATE IS AN INTEGRAL PART OF MONITORING AND FOLLOW-UP

AP6's Code of Conduct states that "AP6 is committed to ensuring that the companies and funds it invests in take action on

climate-related risks and opportunities". Climate-related targets have been established by the AP6 Board of Directors (see page 14).

AP6 reviews the climate-related risks and opportunities that could impact the investment decision or ownership plan. Examples include evaluating a partner's views on investing in fossil fuels or approach to energy efficiency in the portfolio companies. Another example is asking relevant questions on the impact that climate change is having on fixed assets, or raw materials that a company is dependent on, since this could have a major impact on delivery capacity and costs. In the end, all of this will affect the return that can be generated for investors.

After an investment is made, climate is one of the areas monitored and since 2016, climate is part of the annual ESG assessment. Results from the climate section of the ESG assessment are compiled and communicated to the participating funds. More and more fund managers are striving to quantify climate risk in the portfolio based on various climate scenarios. Overall

### Identified effects of climate change



■ Yes 46% ■ No 54%

"Have you identified any climate-related risks or opportunities that could significantly impact the return of your funds or individual portfolio companies?"

### Climate analysis of the portfolio



■ Yes 25% ■ No 75%

"Are you requiring the inclusion of climate as a topic in your portfolio companies' governing documents or analyses of climate-related risks or opportunities (e.g. climate scenarios)?"

### Reporting of carbon emissions from portfolio companies



■ Yes 36% ■ No 64%

"Are you requiring reporting of greenhouse gas emissions from your portfolio companies?"



though, the percentage is still low. During 2020, a couple of the fund management teams developed more structured ways of supporting their portfolio companies with the transition to renewable energy or devising plans for lowering their emissions. They have done so in ways that are consistent with science-based targets for GHG emissions. Two fund managers also set up ESG-linked credit facilities, based on climate-related metrics and criteria. There is an increasing trend of portfolio companies being required to measure and report their carbon dioxide emissions. For many though, collecting qualitative data at the group level is still quite difficult.

### CLIMATE REPORTING

AP6 has declared its support for the international recommendations stating that companies and investors should be reporting climate-related risks and opportunities in their financial statements. The recommendations have been issued by the Task Force on Climate-related Financial Disclosures (TCFD), which recommend reporting on governance, strategy, risk management, metrics and targets. The recommendations cover such things as reporting carbon footprint and analysis of future climate-related risks that could impact companies in the portfolio and thereby the portfolio's return.

### CLIMATE REPORTING BASED ON TCFD'S RECOMMENDATIONS FOR CLIMATE-RELATED FINANCIAL REPORTING

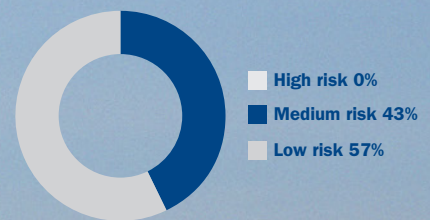
			
Governance	Strategy	Risk management	Metrics and targets
Organization's governance of climate-related risks and opportunities <i>Page 18</i>	Actual and potential impact on operations, strategy or planning. <i>Page 18</i>	How the organization identifies, evaluates and manages climate-related risks. <i>Page 36</i>	Metrics and targets used by the organization to evaluate and manage climate-related risks and opportunities. <i>Page 14 and 18-20</i>

The table references the parts of the annual report containing information on the four areas recommended by TCFD: governance, strategy, risk management, metric & targets. See also AP6's Climate Transparency Report, [www.ap6.se/en/](http://www.ap6.se/en/)

Link to TCFD's recommendations: <https://www.fsb-tcfd.org/publications/final-recommendations-report/>

For the second year in a row, AP6 compiled an overview analysis of the physical climate risks in the portfolio. Although it does not go into great depth, it does indicate that there are medium-high risks in nearly half of the portfolio. It is not currently possible for AP6 to, at the portfolio level, document the other climate-related risks like changes in consumer behavior or more regulation of products and emissions.

### Physical climate risk (as a percentage of capital employed)



The overall analysis of physical climate risks in the portfolio have the same scope as carbon footprint (page 20) and is based on the company's sector and geographic location. The analysis takes both extreme weather and more long-term effects, such as higher temperatures and sea level into effect. For more information, see [www.ap6.se](http://www.ap6.se).



## CARBON FOOTPRINT

For the seventh year in a row, AP6 has engaged external expertise to measure the carbon footprint of the unlisted portfolio. It is a way of demanding more transparency on carbon emissions from unlisted companies, while creating greater overall awareness on climate change in the private equity industry.

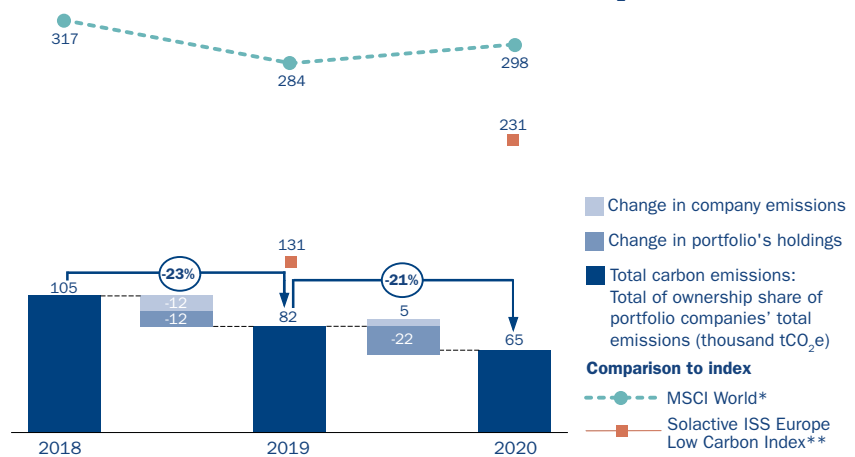
AP6's carbon footprint for 2020 corresponds to 22 percent of the carbon footprint from an equally large investment as per a global index for listed companies. It corresponds to 28 percent of the carbon footprint from a corresponding investment in a low carbon index. For the most part, companies in AP6's portfolio have low levels of GHG emissions from their own operations. However, there could be high levels of emissions in the value chain for those companies, which is why, since 2019, AP6 also makes a rough estimate of the indirect emissions (scope 3). For 2020, the portfolio's estimated scope 3 emissions amounted to 221 thousand tCO<sub>2</sub>, which corresponds to 13 percent of the estimated scope 3 emissions for an equally large investment according to a global index for listed companies.

Changes in the carbon footprint over time stem not only from changes in company emissions but also the composition of the portfolio (from new investments and exits). For more information on the carbon footprint, please visit [www.ap6.se/en/](http://www.ap6.se/en/).

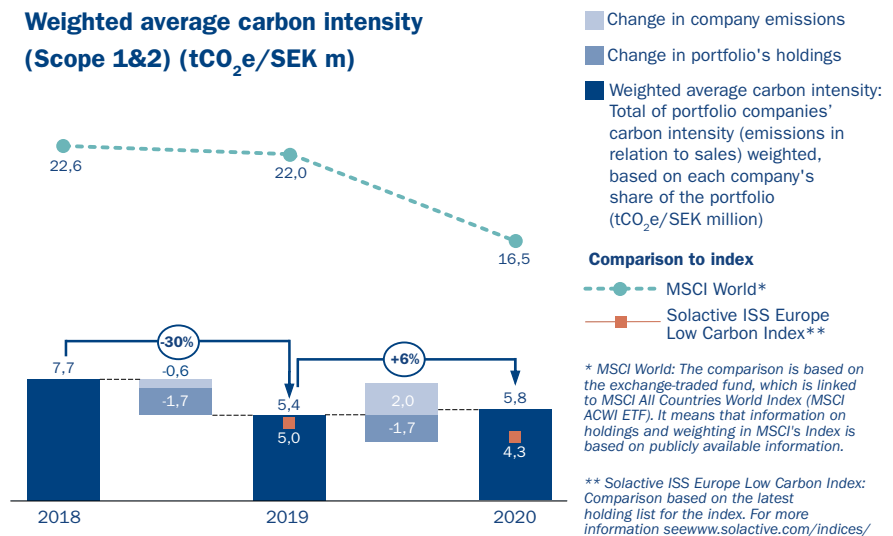
## FOSIL FUELS

Given its mandate and focus, AP6 seldom invests in resource extraction. AP6 has very few investments in the energy sector (2020-12-31, <1% of total managed assets). Of that, most are companies that provide services to that sector. The largest holding in this category has also made a significant transition to offshore wind power. In general, AP6 avoids investments in fossil fuels and has, at times in recent years, declined such opportunities because of the negative climate impact associated with fossil fuels and the risk of stranded assets (i.e. assets no longer possible to extract due to limitations imposed via a global carbon budget).

## Total carbon emissions (Scope 1&2) (thousand tCO<sub>2</sub>e)

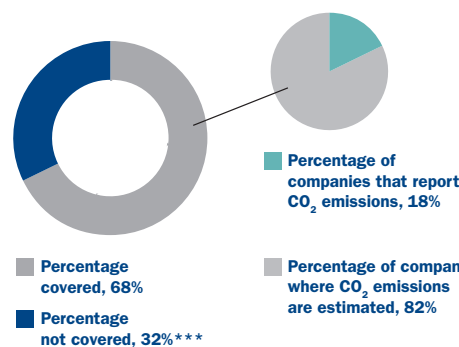


## Weighted average carbon intensity (Scope 1&2) (tCO<sub>2</sub>e/SEK m)

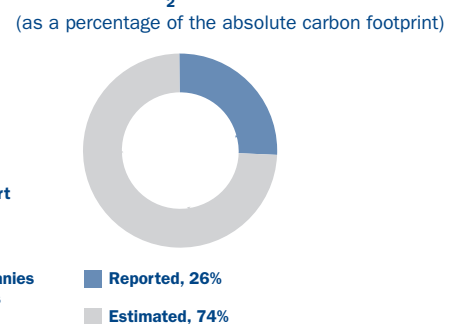


AP6's carbon footprint over time (2018-2020) reported for two indicators, compared to corresponding investment in two different indices.

## Scope of carbon footprint 2020 (as a percentage of employed capital)



## Percentage of reported and estimated CO<sub>2</sub> emissions 2020 (as a percentage of the absolute carbon footprint)



\*\*\*For practical reasons, companies under a certain value or not included. The portfolio contains a large number of small ownership shares, each of which has a relatively low value. At the rate that the number of companies in the portfolio grows, so does the percentage of companies in which AP6 has a small ownership share. The number of audited companies has been held constant since 2018 and it comprises approximately 90 companies, which corresponds to 68 percent of the value of capital employed. The same number of companies corresponded to 66 percent of the portfolio last year.

# AP6's INTERNAL SUSTAINABILITY

**A**P6's own sustainability efforts cover several areas. They include everything from applying good business ethics and morals, to sustainable business travel. AP6 must always maintain public confidence and its sustainability efforts must reflect that.

AP6's owner, represented by the Ministry of Finance, has, in collaboration with the Swedish Association of Local Authorities and Regions, issued guidelines on what constitutes bribes and conflicts of interest.

AP6 employees must never act in a way that risks damaging public confidence in how pension fund assets are managed. AP6 maintains a wide margin to what is allowed. The closer to the allowed limit, the greater the risk of exceeding it. AP6 has also issued its own guidelines aimed at protecting the organization's credibility and impartiality when it comes to decision making.

The guidelines are strict. For example, they state that employees may never accept gifts. Invitations to individual employees must always have a clear and relevant professional purpose. Whatever is offered in the form of meeting setting, location, food and drink should be reasonable.

An employee of AP6 must never risk acting in their own interest – or be swayed



**AP6's own sustainability efforts.** AP6's own sustainability efforts cover a wide scope of activities. It covers everything from applying good business ethics and morals, to sustainable business travel.

by someone else who may influence their decision.

AP6 does not allow secondary occupations that conflict with the requirement for loyalty to the employer. Secondary occupations must be approved by the Managing Director. Secondary occupations are regulated in the Act on Public Employment (LOA).

AP6's Fund 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. The Fund 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 organization. The composition of the Fund Committee is described on page 28.

The AP6 Code of Conduct ([www.ap6.se/en/](http://www.ap6.se/en/)) describes the values that apply to the organization and is aimed at employees, partners and holdings.

## SUPPLY CHAIN

AP6 is subject to the Act on Public Procurement (LOU). AP6 continually assesses its suppliers and sustainability is just one of several important factors. AP6's suppliers consist of a dozen or so 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.

## Internal sustainability targets (selection)

### Gender equality

- Gender balance in all departments

### Diversity

- A workplace that reflects diversity in society (ethnic, background, gender, age, etc.)

### Climate

- *Business travel:* For domestic travel, at least 75 % should be by train

### Suppliers

- An evaluation is required before selecting a vendor. It must always contain an evaluation of sustainability

## Action/fulfillment

For recruitment to new or existing positions, the list of finalists must be 50 % women and 50 % men. For the period 2018-2020, the actual distribution for finalists was 51 % women and 49 % men

Train travel accounted for 87 % (76) of domestic travel during the year

When selecting new suppliers, sustainability is part of the evaluation



An important area in this sphere is providers of transport for business travel. AP6 has different objectives for stimulating sustainable travel for business purposes. 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. AP6 has set up an anonymous whistleblower system. No reports were received in 2020.

### GENDER EQUALITY AND EQUAL PAY

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. Salary trends are documented and monitored at all times and the results show that AP6 complies with the applicable legislation, regulations and guidelines.

### DIVERSITY

A professional organization that constantly strives to improve will utilize all the skills and talents of its employees. People with different experiences and backgrounds can offer new perspectives when analyzing and evaluating things like new investment opportunities and sustainability efforts. It is therefore important that the composition

of employees is diverse. As a government authority, AP6 must also strive to reflect the diversity of Swedish society.

For its size, AP6 has relatively few employees, and low turnover, in a sector that is very homogeneous. This makes it particularly important to have an overall, long-term plan for diversity. Diversity and gender equality are part of the recruitment specification, both in terms of fixed-term and permanent positions. A balanced gender distribution at all levels is a prerequisite for running an optimal organization.

AP6 actively strives to increase diversity in the industry and during 2020, AP6 participated in several international forums to discuss these issues. Collaboration with various industry associations is one of the ways in which AP6 is influential in helping improve diversity within the sphere of private equity.

AP6 also maintains a continuous dialogue with PE firms, portfolio companies and other stakeholders regarding diversity.

### ATTRACTIVE EMPLOYER

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

### 1. Interesting and worthwhile assignments.

AP6 is a major player in the Nordic market for unlisted companies. AP6's partners include several top ranked European and North American PE firms. It generates many interesting and challenging tasks for employees. In addition AP6 has a strong focus on active ownership 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.

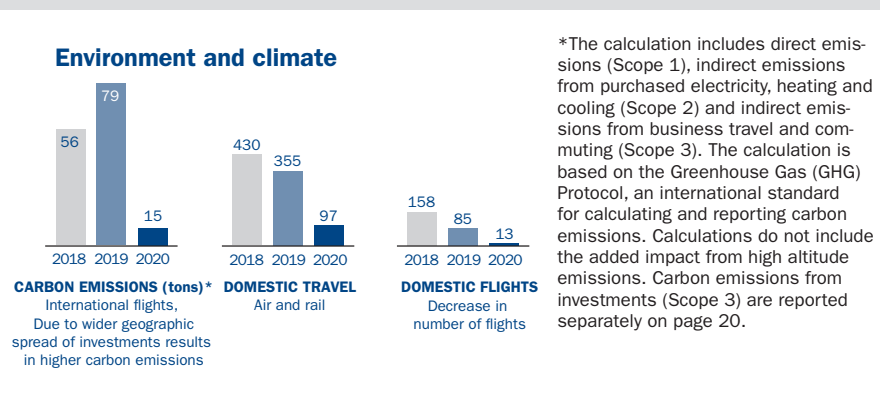
Within the framework of the guidelines for remuneration and benefits, staff should be able to earn a good salary and receive reasonable benefits.

### IMPACT OF THE COVID-19 PANDEMIC

The COVID-19 pandemic had a major impact on AP6's travel patterns and way of working in 2020. The number of business trips fell sharply, due to the restrictions and limitations. Because of this, the travel statistics for 2020 are not relevant for comparison with prior years.

As regards the work environment, AP6's employees quickly transitioned to working from home, rather than in the office. It was a smooth transition, since AP6 already had an IT structure in place for remote work. AP6 also invested in making sure that its employees had the best possible work environment in their homes, in terms of ergonomics, equipment, etc. Surveys

The environmental impact from own operations is low. Typically, business travel has the largest environmental impact, but due to the pandemic, it had very little impact in 2020. Train and video conferencing should also be used instead of flights, when possible. AP6 is increasing its international collaboration, but the number of flights was lower in 2020, primarily due to the pandemic. AP6's carbon emissions were thus much lower. AP6 offsets the organization's emissions through carbon offsetting.





of employee satisfaction and well-being, carried out during fall 2020 also revealed that employees were coping well with the situation.

#### CAPACITY BUILDING

Continuous professional development is a key issue when it comes to retaining expertise and being regarded as an attractive employer. During 2020, training was almost entirely conducted via digital platforms, due to the COVID-19 pandemic. Introduction programs, industry-specific training, the latest developments in sustainability and other trainings were conducted in this way. Training was also held on RepRisk (ESG tool) and AP6's exclusion criteria.

Competence development is planned at the annual appraisal for each employee. The goal is to provide each person with opportunities for continually developing their skills in relevant areas.

In 2020, the amount of training per employee was approximately 30 (40) hours, broken down into 16 (32) hours for management and 27 (37) hours for employees.

#### 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. During 2020, all employees interested in taking a COVID-19 antibody test were invited to do so. Everyone is offered health insurance and a fitness subsidy. AP6 engages a consultancy firm to carry out employee surveys on a regular basis.

#### Employees – composition/key ratios

The total number of employees was 31 (30), of which 18 (17) women and 13 (13) men. Age distribution:

<30 years	2 people
30-49 years	17 people
50-70 years	12 people

Senior management consists of 7 people; of which 5 men and 2 women.

Of the 31 (30) employees, 25 (24) work at the head office in Gothenburg and 6 (6) in Stockholm.

The Board of Directors consists of 5 (5) people, 3 (3) women and 2 (2) men. The Chair of the Board is a woman.

Absence due to illness: 1.5 % (0.5)

Employee turnover: recruiting 6.6 % (6.4), severance 3.3 % (12.9).

The fitness subsidy was utilized by 90 % (97).

#### REPORT PROFILE

This is AP6's eighth GRI report and the reporting period is the calendar year 2020. AP6 has elected to report in accordance with GRI Standards at the Core level. 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 and the Board of Directors is responsible for its preparation.

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

Margareta Alestig Johnson  
Director Sustainability

margareta.alestig@ap6.se

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\* N/A = Not applicable

## ABOUT THE SUSTAINABILITY REPORT

The report covers AP6's internal operations and outlines AP6's areas of influence as determined by the analysis. The analysis includes an assessment of the importance of every relevant issue and identifying where this effect occurs, internally or externally. It is based on

GRI's principles for selection of content.

AP6 is not subject to the requirements on sustainability reporting from 2017 stipulated in the Annual Accounts Act. However, it has nevertheless elected to report in accordance with this law. It also means that the auditors have conducted a review of the sustainability report as prescribed by law.

## AUDITOR'S STATEMENT ON THE SIXTH AP FUND'S SUSTAINABILITY REPORT

For the Sixth AP Fund, CIN: 855104-0721

### Assignment and delegation of responsibility

The Board of Directors is responsible for the Sustainability Report for 2020. The Board is also responsible for ensuring that the Sustainability Report has been prepared in accordance with the Sixth AP Fund's principles for sustainability reporting.

### Focus and scope of the review

Our review was conducted in accordance with FAR's recommendation RevR 12. Auditor's report for companies preparing the statutory sustainability report. It means that our review of the sustainability report has a different focus and a much smaller scope compared to the focus and scope of and audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We feel that this review has provided an adequate basis for our opinion.

### Opinion

A sustainability report has been prepared.

Stockholm, 26 February 2021

PricewaterhouseCoopers AB

Magnus Svensson Henrysson  
Authorised Public Accountant



Signatory of:  
**PRI** Principles for Responsible Investment

## GLOBAL COMPACT AND PRI

AP6 is a signatory of the UN Global Compact, and remains committed to implementing and integrating the principles of human rights, labor rights, environment and anti-corruption in its operations and to influencing other companies to follow the Global Compact.

The Sustainability Report also contains the 2020 Communication on Progress as regards AP6's Global Compact commitments.

AP6 is also a signatory of the UN Principles for Responsible Investment (PRI). AP6 is thus committed to considering, among other things, environment, social aspects, and business ethics prior to an investment or during ownership. AP6 also actively strives to promote the PRI principles in the PE sector.

AP6 participates in relevant PRI working groups aimed at sharing knowledge and experience regarding sustainability in the context of unlisted investments and helping promote the PRI principles in the PE sector. For more information on AP6's responsible investment activities, please see its annual report to PRI, [www.unpri.org](http://www.unpri.org)



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# FUND GOVERNANCE STATEMENT

**T**he The Fund Governance Statement is based on the Swedish Corporate Governance Code. It is a set of guidelines on good governance for listed companies, now standard practice for industry, government agencies and other types of companies. The report must also 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. Unlike with other public authorities, the Swedish Government does not have any regulatory authority over the funds.

## PROGRESS IN 2020

The global pandemic has impacted all aspects of the organization, including investment activities. Despite this, AP6's team working with investment activities was able to make around a dozen fund commitments and about the same number of co-investments. Several divestments were also made in 2020.

## SUSTAINABILITY EFFORTS

AP6 also further developed its sustainability work in 2020, overall and for the two focus areas, equality/diversity and climate. During the fall, engagement with stakeholders was expanded by contacting 47 stakeholders and asking them to complete a survey. Their responses provided valuable feedback for future sustainability work. See page 12 for more information. The sustainability model for evaluation of fund investments is an important tool for measuring the progress of sustainability work in the portfolio. AP6 also worked with PRI and engaged with trade associations by participating in working groups, committees and conferences/seminars. The work with sustainability is described in the Sustainability Report.

## BOARD COMPOSITION

The Board of Directors, consisting of five members, is appointed by the government, which also appoints the Chairman and

Deputy Chairman.

Board members have a 1-year mandate, which means that the current appointments are valid until the government has adopted AP6's balance sheet and income statement for 2020.

To ensure objectivity and independence, the other assignments of Board members must be approved by the Chairman and the Chairman's other assignments must be approved by the Ministry of Finance. Prior to each Board meeting, directors also asked whether they have any conflicts of interest that would prevent them from taking part in any of the agenda discussions and decisions.

## BOARD WORK

The Board has full responsibility for AP6's activities and for 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 6 ordinary and 12 extraordinary board meetings in 2020, as well as a strategy day. Due to the COVID-19 pandemic, most of those were virtual meetings and one was per capsulam.

Those who participate at Board meetings, besides the directors, are AP6's Managing Director, the General Counsel (also serves as secretary) and any managers or employees who will be making presentations.

The Board establishes AP6's performance targets and its long-term strategy, along with appointing and evaluating the Managing Director and ensuring that there are sound procedures in place for internal controls and monitoring. The Board also makes decisions on investment proposals and evaluates AP6's operations each year from a long-term perspective.

In 2020, the Board adopted a new strategic direction for investing activities and a new performance target for AP6. The Board has set up three committees: Risk & Audit Committee, Sustainability Committee and Remuneration Committee.

## RISK & AUDIT COMMITTEE

The Risk & Audit Committee (previously the Audit Committee) assists the Board with matters concerning audits, financial reporting and risk management. Its 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 also approves AP6's proposed valuations of unlisted assets when no external appraisal exists (four holdings in 2020). The managers in charge send the valuations to the Managing Director, General Counsel and CFO for approval before submitting them to the Committee. The Committee must also meet AP6's auditors at regular intervals for briefings on the audit and risk exposure.

Meetings of the Risk & Audit Committee are coordinated with the other meetings of the Board of Directors and AP6's auditors attend on at least one occasion. The Committee consists of two members from the Board, one of whom serves as chairman. The Managing Director, CFO and a keeper of the minutes are co-opted members.

## REMUNERATION COMMITTEE

The Remuneration Committee assists the Board in a drafting capacity in matters concerning remuneration principles, remuneration and other employment terms for senior executives at AP6. It must monitor and evaluate application of the guidelines for the terms of employment for senior executives decided by the Board and use the government's guidelines issued in 2009.

The Committee must also prepare draft proposals for a framework for annual salary reviews for AP6's employees. It meets in conjunction with annual revisions and evaluations and consists of two members from the Board, one of whom serves as chairman. The Managing Director, Head of HR and a keeper of the minutes are 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:

- An annual plan for sustainability efforts
- Relevant sustainability goals
- Criteria and methods for measuring and evaluating AP6's sustainability efforts
- Guidelines for annual sustainability reporting

The Committee meets twice per year and consists of two members from the Board, one of whom serves as chairman. The Managing Director, Chief Sustainability Officer and a keeper of the minutes are co-opted members.

## FEES, SALARIES AND INCENTIVE SCHEMES

Fees and other remuneration paid to the Board are decided by the government. Annual remuneration amounts to SEK 200,000 for the Chairman, SEK 150,000 for the Deputy Chairman and SEK 100,000 for other Board members.

The Board decides on remuneration for the Managing Director and pay scales for all other employees. Guidelines on the remuneration to senior executives of AP6 were issued by the government in 2009 and they still apply. In accordance with those guidelines, variable remuneration has been eliminated (see Note 6). AP6 does not offer variable remuneration or incentive schemes for management or other employees.

## 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. The risks identified by internal auditors or through internal controls, are managed by introducing specific activities to the process flow. New or modified activities mainly relate to organizational structure, levels of

authority or allocation of responsibility, processes, control functions/redundancy and documentation. The governance function is described in AP6's governing documents and policies, which are established by the Board, along with the instructions decided by the Managing Director. Process descriptions and system support to assist with day-to-day operations are also created.

### **There are various governing bodies that support the Managing Director's ongoing administration:**

- **Senior management** is involved in decisions about overall strategy and organizational matters for AP6.

- **The Allocation Committee** is involved in decisions about investing activities and prepares supporting documentation for decisions that will be made by the Fund Committee and Board.

The Allocation Committee is responsible for allocating capital within the investment portfolio by preparing and gathering the documentation that will be used for investment and divestment decisions as well as ongoing administration.

The Committee also deals with any nomination and remuneration matters in holdings.

- **The Fund Committee** is involved in decisions that have been proposed by the Allocation Committee from an overall fund perspective, which ensures redundancy in the decision process.

The Fund Committee recommends decisions that the Board should consider. It is thus the final decision point for decisions under the Managing Director's mandate. The Fund Committee also deals with ethical issues.

For financial institutions, the Swedish Financial Supervisory Authority's (FI) has regulations stating that functions are required for managing compliance and risk. AP6's activities are not subject to supervision. At AP6, these functions are shared between different levels of the organization. The compliance function is shared by AP6's General Counsel (regulations) and the CFO (financial reporting). The risk management function is performed by a risk controller who reports regularly to the Managing Director and the Risk & Audit Committee.

Risk management is also an integral part of day-to-day investing activities.

## AUDIT

AP6's auditors are appointed by the government. The current auditors are Magnus Svensson Henryson (PwC) and Peter Nilsson (PwC), whose appointment runs until 31 May 2021. 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 of AP6's IT environment was also conducted.

At least once per year, the auditors present a report on their audit to the Board, along with submitting a written report on their audit of the administration and financial statements. At that meeting, the Board may ask the auditors questions, without any senior executives being present. In addition to this, the auditors report verbally to the Ministry of Finance once a year.

## THE BOARD'S OWN ASSESSMENT

Under the Sixth AP Fund Act (2000:193), the Board must carry out an 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.

## THE GOVERNMENT'S 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 using 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 2020 financial year.



# Board of Directors

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**CATRINA INGELSTAM**  
*Chairman*

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

**OTHER APPOINTMENTS:** Board member of Kommuninvest, Swedfund, Orjo, Spiltan Fonder, LÖF (nationwide Swedish insurance company that insures publicly financed health care providers).

No holdings in unlisted companies.

Holdings in own companies: Creatme AB, NZ Pie AB.



**URBAN LINDSKOG**  
*Deputy Chairman*

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

**OTHER APPOINTMENTS:** VP Div. Communications, Lagercrantz Group. Chairman of the Board at Direktronik, Radonova, Excidor, Load Indicator, Precimeter, GasiQ, Leteng AS.

Board member of Scanmast AB.

Holdings in unlisted companies: Scanmast Holding AB.

Holdings in own companies: Lindskog & Partners, Venture Management AB Scharp & Lindskog AB.



**KARIN REUTERSKIÖLD**  
*Board member*

**BORN:** 1959  
**ELECTED:** 2018

Other appointments: Business Strategist at Hållbarhet Danske Bank. Advisor at MISTRA Carbon Exit. MISTRA Sustainability Committee, Sustainability Group Member of The Swedish Society of Financial Analysts (SFF).

No holdings in unlisted companies.

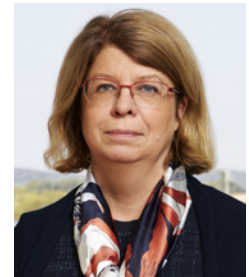


**ALEXANDER LJUNGVIST**  
*Board member*

**BORN:** 1971  
**ELECTED:** 2018

**OTHER APPOINTMENTS:** The Stefan Persson Family Professor of Entrepreneurial Finance at Stockholm School of Economics. CEO at Nordic Economics Consulting AB.

No holdings in unlisted companies.



**ÅSA KNUTSSON**  
*Board member*

**BORN:** 1962  
**ELECTED:** 2019

**OTHER APPOINTMENTS:** CEO at Fouriertransform AB, Head of Direct Investments at Saminvest, Board member of Inland-sinnovation AB.

No holdings in unlisted companies.

Holdings in own companies: T&Å Knutsson Konsulter AB.

## Board Committees

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**Risk & Audit Committee**

Alexander Ljungqvist (*Chairman*)  
Åsa Knutsson

**Remuneration Committee**

Urban Lindskog (*Chairman*)  
Catrina Ingelstam

**Sustainability Committee**

Catrina Ingelstam (*Chairman*)  
Karin Reuterskiöld

# Management

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**KATARINA STAAF**  
*Mangaging Director*

**BORN:** 1967  
**EMPLOYED:** 2019

**BOARD APPOINTMENTS:**  
Staaf & Partners AB  
FastPartner AB (as of April 2020)

No holdings in unlisted companies.

Holdings in own companies:  
Staaf & Partners AB  
K Staaf Konsult AB



**CECILIA GROSS  
FRIBERGER**  
*Portfolio Manager*

**BORN:** 1968  
**EMPLOYED:** 2000

**BOARD APPOINTMENTS:**  
None  
No holdings in unlisted companies.



**KARL FALK**  
*Portfolio Manager*

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

**BOARD APPOINTMENTS:**  
None  
No holdings in unlisted companies.



**MATS LINDAHL**  
*Portfolio Manager*

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

**BOARD APPOINTMENTS:**  
Bergsala AB.  
No holdings in unlisted companies.



**HENRIK DAHL**  
*CFO*

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

Board appointments:  
Centre for Finance (CFF)  
at University of Gothenburg School of Business, Economics and Law

No holdings in unlisted companies.



**JONAS LIDHOLM**  
*General Counsel*

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

**BOARD APPOINTMENTS:**  
None

No holdings in unlisted companies.



**ULF LINDQVIST**  
*Head of Communications*

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

**BOARD APPOINTMENTS:**  
None

No holdings in unlisted companies.

## Decision forum organization

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**SENIOR MANAGEMENT:**

Katarina Staaf (*Chairman*)  
Cecilia Gross Friberger  
Karl Falk  
Mats Lindahl  
Henrik Dahl  
Jonas Lidholm  
Ulf Lindqvist

**FUND COMMITTEE:**

Katarina Staaf (*Chairman*)  
Margareta Alestig Johnson  
Anna Föllér  
Jonas Lidholm  
Ulf Lindqvist

**ALLOCATION  
COMMITTEE:**

Katarina Staaf (*Chairman*)  
Cecilia Gross Friberger  
Karl Falk  
Mats Lindahl  
Vidar Andersch  
Yue Gong  
Frida Bergqvist (*Keeper of the Minutes*)





# REMUNERATION LEVELS, BENEFITS AND REPRESENTATION COSTS

The government adopted guidelines in 2009 on remuneration of senior executives at the AP funds. The main objective of this measure was to protect public confidence in the AP funds.

Below, are the guidelines on remuneration, and the results from a comparison made in 2019 of remuneration levels for all employees.

## **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, be appropriate for the work concerned and contributing to a good ethical code and organizational culture
- The remuneration should not be higher than at comparable institutions, rather, 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)

To the extent possible, and having considered the market conditions, AP6 strives to ensure that the guidelines are applied in companies where it has direct ownership.

## **ANALYSIS OF AP6'S REMUNERATION LEVELS**

The Board's guidelines are that AP6 shall, at regular intervals (approximately every other year) carry out an evaluation of remuneration levels covering the salaries of all employees. The evaluation must be performed by an independent, external consulting firm. This was done most recently in 2019 and no changes in the remuneration structure have occurred since then.

## **Results of the evaluation**

Results of the 2019 evaluation showed that AP6's remuneration level for salaries is in the lower quartile compared to the financial sector.

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

## **REPRESENTATION AND TAXABLE BENEFITS**

AP6 has restrictive guidelines when it comes to representation and benefits.

Representation costs should be reasonable and appropriate. For example, alcohol may not be included in internal entertainment expenses.

# DIRECTORS' REPORT

The Board of Directors and Managing Director of the Sixth AP Fund (AP6) hereby present the Annual Report for the 2020 financial year. The Annual Report consists of a Directors' Report, Income Statement Balance Sheet, and Notes.

## GENERAL

The Sixth AP Fund is a specialist fund in the Swedish pension system with the unique mandate of investing in the market for unlisted assets (private equity). The goal is to create a long-term, high return with adequate spread of risk. Investing activities focus on the buyout segment (mature companies), which have delivered very good returns over time. Investments in the venture segment (early phase) are only made indirectly, via funds. Co-investments are ideally made together with other financial and industrial investors. AP6 has established many long-term relationships for its fund investments and ongoing collaboration with these fund management teams has also resulted in the creation of a broad portfolio of co-investments. All of it results in cost-efficient management with the right conditions for generating a high return.

## SIGNIFICANT EVENTS DURING THE YEAR

### Profit/Loss

The net profit for 2020 amounted to SEK 7,649 (2,858) million, which corresponds to a return of 20.4 (8.2) %. The return should be compared to the performance target for the year, which was 15.5 %. The return on capital employed was SEK 7,583 million, which corresponds to a return of 20.4 %. Of that amount, fund investments were SEK 3,171 million (a return of 14.0 %) and co-investments were SEK 4,412 million (a return of 29.0 %).

### Performance of fund capital

At the end of 1996, AP6 started with fund capital of SEK 10.4 billion, which by the end of 2020 had grown by SEK 34.8 billion to SEK 45.2 billion. This is equivalent to a total increase in value of 335 % since AP6 was established and an annual average growth rate of 6.3 %. Since 2003, the majority of AP6's assets has been invested in unlisted companies. An analysis shows that during the period 2011-2020 (the last 10 years) fund capital has grown from SEK 19.9 billion to SEK 45.2 billion, which corresponds to an average annual growth rate of 8.5 %.

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.

### Commitments to future investments

Investing in PE funds involves making a commitment for an

agreed amount. It is then paid out in installments, at the rate that investments are made. Typically, an investment period is 5 years, after which the fund transitions to managing, and later exiting, its holding. At that point, the return is realized. At year-end, remaining committed capital amounted to SEK 18.7 (17.9) billion, of which funds were SEK 18.2 (17.1) billion and co-investments 0.5 (0.8) billion.

### Targets and benchmarks for AP6

The Board has selected "SIX Nordic 200 Cap GI" as the benchmark for AP6's performance. It is a Nordic index that includes the 200 largest companies. A risk premium of 2.5 % is added to cover the illiquid asset class, unlisted companies. The benchmark is used not only to evaluate performance, but also provide an indication of the return that could have been generated if AP6's capital had been invested in that index. All of AP6's investments, however, are in unlisted assets, which is why the target is supplemented with an unlisted benchmark (Burgiss, unlisted median fund in Europe, less return for normal liquidity). This benchmark answers the primary question of how the fund performed in comparison to other PE funds. Both reference points on AP6's return should be used to evaluate the fund's return over the long term and several business cycles. As of 2021, the Board has decided on a new target for the organization. The prior target for listed has been replaced with a target for unlisted, similar to what is currently used as benchmark. The new target will demonstrate whether AP6 is successful in its asset class, i.e. unlisted assets. Evaluation of operations will, primarily, cover rolling five-year periods.

### Overall return analysis

AP6's net return for the year amounted to 20.4 %, which, for 2020, also corresponds to the return on capital employed. The capital employed consists of investments made through investing activities. Other capital consists of liquidity management, where the investment strategy is that 30 % of capital shall be invested in five broad stock indices and the rest in fixed-income funds. Despite the last year being unusually turbulent, profit was SEK 7.6 billion, which, in monetary terms is the highest in AP6's history. The return of 20.4 % thus exceeded the target of 15.5 % with a good margin. In comparison, the unlisted benchmark increased by -3.8 %.

The holding period for private equity is typically long, so the return should also be evaluated over time and across several business

cycles. AP6 focuses on investing in mature companies that have delivered very good returns over time. For the mature companies' segment, the return over the last 10 years amounted to 12.4 % and over the last 5 years it amounted to 13.9 %. The targets for those same time periods were 13.7 % and 14.1 % respectively. The trend in return for the portfolio has gradually improved and overall, it is in line with the target for the most recent period of measurement, i.e. 5-year performance. AP6's unlisted benchmark over 10 years is 8.6 % and for 5 years it is 7.4 %. AP6's net return, i.e. after costs for those same time periods is 8.5 % and 11.3 % respectively. Accordingly, the return is in line with the benchmark over 10 years and it exceeded the benchmark with a quite good margin over the last 5 year period.

## INVESTING ACTIVITIES

AP6's operations are divided into investing activities and liquidity management. Investing activities consist of fund investments and co-investments. Liquidity management is focused on payment readiness and investing excess liquidity in equity funds and fixed-income funds.

### Fund Investments

The market value assets amounted to SEK 22.4 (17.3) billion at the end of 2020, while the profit for the year before internal expenses came to SEK 3,171 (1,314) million. Profit for the year corresponds to a return of 14.0 (9.8) %.

The market value assets in the buyout portfolio amounted to SEK 18.9 (14.9) billion, while the profit for the year before internal expenses came to SEK 2,402 (1,171) million. It yields a return for the year of 11.9 (10.1) %. The profit level was affected positively by widespread portfolio re-valuations and by realizing assets at values higher than the opening market value.

The market value assets in the venture portfolio amounted to SEK 3.5 (2.4) billion, while the profit for the year before internal expenses came to SEK 804 (143) million. The profit level in this segment yields a return for the year of 27.7 (7.7) %.

Fund Investments invest in funds managed by experienced management teams, who invest in companies in the buyout and venture market segments. The investments are made mainly in primary funds, but also in the secondary market by making commitments to secondary funds, or through own purchase of secondary shares. The portfolio consists of more than 100 active funds that are invested in more than 600 companies.

There was a steady and high rate of new commitments once again in 2020, totaling SEK 6.8 billion. The portfolio is being further diversified by making additional commitments to funds in the USA, as well as in venture. These commitments are to high-quality PE firms with a very good history of returns.

For buyout, the return over the last ten years amounts to 14.2 % and over the last five years it is 13.0 %. The corresponding figures for venture capital are 18.5 % and 28.9 %, respectively. Investments in venture have exceeded the targets for all periods and for the buyout segment (mature companies), the target for the 10 year

period has been exceeded (target of 13.7 %). Based on the strong performance of stock markets over the last 5 years, the target for the period is set at 14.1 %. The return for venture has improved significantly in recent years. There are relatively few high-performance teams and fewer funds on the market. Accordingly, commitments made here will continue to be limited compared to the major buyout funds.

### Co-investments

The market value assets amounted to SEK 16.7 (15.8) billion at the end of 2020, while the profit for the year before internal expenses came to SEK 4,412 (1,211) million. Profit for the year corresponds to a return of 29.0 (8.3) %.

The market value of investments in companies in mature phase (buyout) amounted to a total of SEK 16.5 (14.4) billion, with the profit for the year before internal management costs totaling SEK 4,445 (668) million. It yields a return for the year of 30.3 (5.1) %.

The return for mature companies is considered to be high for the year. The performance of several major holdings in the portfolio has been exceptional. In many cases, the underlying profitability of the holding has improved simultaneous to valuations for similar companies in the market having risen sharply. Diversification of the portfolio is good and the assessment is that it will continue generating a strong return.

The market value of investments in early phase (venture capital) amount to only SEK 0.2 (1.4) billion and the loss for the year before internal expenses came to SEK -33 (543) million. The venture portfolio is very limited compared to the total portfolio and no new investments are made here. For this reason, this will be the last year that those figures will be reported separately.

The rate of investment for new co-investments was somewhat lower than normal in 2020 because fewer transactions were being made in the market. In total, SEK 1.8 billion was invested, of which approximately SEK 0.8 billion in five new portfolio companies.

The return for co-investments, which are investments that were primarily made during the last 5 years, amounted to SEK 14.7 %. The corresponding figure for venture capital is 18.6 %. These results can be compared to the target for the last 5 years, which was 14.1 %. The return for the buyout segment over time is considered to be sufficiently high and prospects for these investments remain good.

## TREASURY MANAGEMENT

At year-end, liquidity totaled SEK 6.1 (4.5) billion. This is the portion of AP6's capital that has not been invested as part of investing activities. Outcome for the liquidity management amounted to SEK 155 (428) million.

Payment readiness is just one aspect of liquidity management. It consists of maintaining balances in cash accounts. Some of the funds may also be invested in highly liquid interest-bearing securities (where there is low risk and adequate risk diversification). The size of funds set aside for payment readiness typically corresponds to around three months of the net cash outflow for investing activities.

What remains after that is managed as excess liquidity by AP6.



Because AP6 is a closed fund that makes long-term investments in unlisted assets, excess liquidity will be generated during periods of high returns. Accordingly, a long-term investment horizon must be applied. With the aim of achieving an adequate, risk-adjusted return, excess liquidity is thus invested at a higher risk than the amount set aside for payment readiness. Following this approach, AP6 invests 30 % in five geographically widespread, passive stock index. The remaining portion is invested in external fixed-income funds with balanced interest rate risk and credit risk. The management is thus considered to be very well diversified via the current broad exposure to and equities and fixed-income investments.

Liquidity management must also consider the financial risks that could arise within the business, and any borrowing needs.

## MANAGEMENT COSTS

The costs are divided into external and internal management costs and shared costs (Notes 4 and 5).

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, co-investments 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. Because AP6's operations are not subject to VAT, input VAT cannot be deducted.

The management fees and acquisition costs attributable to holdings in funds and companies are expensed as incurred and recognized in unrealized gain/loss. In total, these costs amounted to SEK 517 (525) million, of which SEK 506 (514) million is attributable to the management costs for funds. The management costs for funds corresponds to 1.3 (1.5) % in relation to the total managed assets for funds, which, at year end, amounted to SEK 40.5 (34.4) billion. That amount consists of current market value and remaining committed capital. The cost, in SEK, for management activities typically increases in sync with the size of assets under management. There was no cost increase during the year, which primarily results from a strengthening of the SEK against other currencies, since essentially all of the fees are paid in foreign currencies (primarily EUR and USD).

Total costs for AP6 amounted to SEK 89 (95) million in 2020, with SEK 40 (44) million of this sum attributable to investing activities and liquidity management, while SEK 49 (51) million relates to joint costs.

## ORGANIZATION AND EMPLOYEES

AP6 is owned by the government and reports to the Ministry of Finance. During the year, the investment organization was reorganized. It had previously been grouped by competencies (fund investments and direct investments). Now, it is organized in accordance with the segments where investments are made. Those segments are: buyout, growth and secondaries.

The new organizational structure is expected to result in economies of scale and more integrated way of collaborating, since the competencies of fund and direct investments are now represented in each of these groups. This organization will continue to manage the capital which, for analysis purposes, is called investing activities. In addition to that, AP6 manages liquidity which involves maintaining payment readiness, along with managing excess liquidity and borrowing needs.

Shared functions such as legal affairs, finance, business control, sustainability, HR and IT support the organization's investing activities. The head office is located in Gothenburg. At year-end, AP6 had 31 (30) employees. See Note 6 for additional information on staff. For more information on AP6's organization and employees, please visit the website, [www.ap6.se](http://www.ap6.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 per-formance 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.

## THE GOVERNMENT'S 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 is primarily of the performance targets set by the Board and the extent to which investing activities achieved them. Analyses are also performed to assess the efficiency of the AP fund system from a general perspective. The latest document is published on the websites of the Swedish government and AP6.

## 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 UN Global Compact.

The requirements are thus clearly formalized 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 join the UN Global Compact. The investments consist of holdings of different sizes and ownership stakes, which means that AP6 must adapt the models accordingly.

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, 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.

AP6 has a Sustainability Committee consisting of two Board members. The Committee decides on the guidelines for sustainability reporting, along with the criteria for measurement and evaluation. It also establishes an overall strategic plan together with long-term goals. The goal, however, is clear: for AP6 to be a leader in sustainability in private equity. Accordingly, efforts are continually being improved in order to meet the high requirements and expectations.

### AP6'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>				<b>Total fair value</b>
SEK Million	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Shares and fund units	5,239	–	36,872	42,111
Interest-bearing securities	2	1,721	280	2,003
Cash	1,270	–	–	1,270
<b>Closing balance</b>				
<b>31 December</b>	<b>6,511</b>	<b>1,721</b>	<b>37,152</b>	<b>45,384</b>

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 (in this context, currency derivatives).

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>Fund investments</b>	<b>Co-investments</b>	<b>Total</b>
Opening balance 1 January	17,028	15,050	32,078
Investments	4,678	1,801	6,479
Value changes*	3,357	3,155	6,512
Divestments	-2,798	-3,065	-5,863
Exchange rate differences and other adjustments	-1,047	-1,007	-2,054
<b>Closing balance</b>			
<b>31 December</b>	<b>21,218</b>	<b>15,934</b>	<b>37,152</b>

\* Derivative instruments for foreign currency hedging are not included in level 3. The closing balance may thus differ slightly from the figures specified in the main text. Co-investments for existing listed holdings are also adjusted.

As is apparent from the table above, 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. Only in a few cases does AP6 need to estimate the company value based on own assessments. In these few instances, the IPEV principles are used as the framework for performing the valuation. Valuation using multiples is the process most frequently used, which involves identifying comparable assets (the peer group) and obtaining their market values for comparison. These consist of a cluster of similar companies, usually listed, which are reminiscent of the company to be valued. An upturn in the stock market is likely to lead to higher multiples, thereby also leading to higher valuations in an unlisted portfolio. In times when the stock market is turbulent, a certain degree of caution must also be exercised when the valuation is partly based on multiples. Triangulating a value that is as fair as possible also involves using alternative valuation methods such as, for example, valuation according to the latest round of financing or models

based on future cash flows. The private equity funds in which AP6 invests apply the same valuation methods outlined above. The funds report the market value at the end of each quarter, which means that the AP6 annual financial statements are based on values reported in the third quarter. Profit for the year is thus based on reports that range from the start of the third quarter of 2019 through the end of the third quarter of 2020, which means that profit for the year includes four quarters, but with a lag of one quarter.

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 thus do not have any element of estimation in the valuation process.

## RISKS IN AP6'S OPERATIONS

Each year, AP6 conducts a thorough review of risks, which involves documenting the risks associated with its operations. Each area of risk has its risk-drivers and these are analyzed. Afterwards, each risk and its likelihood of occurring are discussed, along with the impact it would have on operations. Mitigating factors are then identified, along with the level of net risk deemed acceptable. The work is led by the risk function and results are reported to the senior management team and Audit Committee, or, to the Sustainability Committee for matters pertaining to sustainability. As with most organizations, there are many risks that must be managed. Below is a list of the six risks considered to be most significant to AP6.

**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 co-investments are exposed to these risks, they are monitored continuously. A maximum of 10 % 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 30,947 million (25,482); of this sum assets in euros were the largest individual currency with a market value of SEK 9,132 million (8,198). SEK 29,944 million (25,105) of the total market value was hedged, providing a currency exposure of 2.9 (1.4) % in relation to the assets under management. In line with the established investment policy, AP6's target is for currency exposure to be within the range 0-7.5 %.

**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 having the Board of Directors each year decide on the focus of future allocation plans.

**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 % of AP6's total managed assets. There is also a credit facility 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 fund investments and co-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. It aims to have a representative on the board of the unlisted companies when the ownership interest makes this feasible. The companies' financial development is also continuously monitored.

**Operational risks:** It covers 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. In addition, employees continually develop their skills via training.

**Sustainability risks:** These risks exist in all types of operations, but AP6's exposure is primarily associated with its investing activities in companies and funds. The sustainability risks vary, based on company's or fund's operations and geographic locations. Types of risks include: violation of human rights or labor laws, corruption, environmental damage and climate risks. AP6 manages its sustainability risks by systematically reviewing and assessing them prior to an investment, then, working continually with them during the ownership phase. Another component of risk management is the annual goals for AP6's systematic sustainability work, set by the Board.



## THE SIXTH AP FUND'S PERFORMANCE 2011-2020 (10 YEARS)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Trend in return, %</b>	-6.9	9.2	9.2	6.5	12.2	6.5	12.3	9.6	8.2	20.4
Benchmark index <sup>1</sup>	7.7	20.2	30.0	19.5	15.4	10.5	16.2	-0.6	31.4	15.5
Unlisted benchmark <sup>2</sup>	2.0	1.1	7.5	15.9	6.9	8.3	6.6	13.1	7.1	-3.8
<b>Fund capital, SEK billion</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>31.6</b>	<b>34.7</b>	<b>37.5</b>	<b>45.2</b>
<b>Profit/loss summary, SEK million</b>										
Profit/loss before costs	-1,237	1,838	1,982	1,561	2,994	1,827	3,587	3,143	2,953	7,738
External management costs	-23	-21	-24	-22	-21	-13	-31	-8	0	0
Internal management costs and shared costs	-120	-116	-98	-98	-106	-92	-86	-93	-95	-89
<b>Profit/loss for the year</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>3,470</b>	<b>3,042</b>	<b>2,858</b>	<b>7,649</b>

1. Benchmark index: 2003–2011 absolute performance target. 2012-2020 performance target SIX Nordic 200 Cap GI +2.5%.

2. Burgiss Europe, median all assets. Adjusted for normal liquidity.

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

SEK Million	Profit/Loss					Total	Return before costs, % 2016-2020	Market value assets 2020-12-31
	2016	2017	2018	2019	2020			
Fund Investments	603	1,678	2,550	1,314	3,171	9,316	15.6	22,363
Co-investments <sup>1</sup>	1,013	1,771	887	1,211	4,412	9,294	15.0	16,736
Liquidity & risk management	198	107	-302	428	155	586	–	6,145
Shared assets, net <sup>2</sup>	–	–	–	–	–	–	–	-87
Internal management costs	-47	-41	-46	-44	-40	-218	–	–
Shared costs	-45	-45	-47	-51	-49	-237	–	–
<b>Total</b>	<b>1,722</b>	<b>3,470</b>	<b>3,042</b>	<b>2,858</b>	<b>7,649</b>	<b>18,741</b>	<b>11.3</b>	<b>45,157</b>

1. During the year, the term direct investments has been replaced by co-investments since it better reflects the current investments in the portfolio.

2. Shared assets, net, consists of other working capital.

# INCOME STATEMENT

SEK Million	Note	2020	2019
<b>Investing activities</b>			
Net gain/loss, listed shares and participations		245	716
Net profit/loss, unlisted shares and participations	2	7,446	2,191
Dividends received		10	32
Other financial income and expenses	3	37	14
Management costs	4.6	-40	-44
Shared costs	5.6	-49	-51
<b>Profit/loss for the year</b>		<b>7,649</b>	<b>2,858</b>

# BALANCE SHEET

SEK Million	Note	2020-12-31	2019-12-31
<b>ASSETS</b>			
<b>Investment assets</b>			
Shares and participations in listed companies and funds	7.8	5,239	4,794
Shares and participations in unlisted companies and funds	7.9	36,872	31,812
Other interest-bearing instruments	7.10	282	268
<b>Total investment assets</b>		<b>42,393</b>	<b>36,874</b>
<b>Receivables and other assets</b>			
Derivative for currency hedging		1,760	417
Other current receivables	11	5	53
Prepaid expenses and accrued income	12	42	57
Cash and cash equivalents	7	1,270	395
<b>Total receivables and other assets</b>		<b>3,077</b>	<b>922</b>
<b>TOTAL ASSETS</b>		<b>45,470</b>	<b>37,796</b>
<b>FUND CAPITAL AND LIABILITIES</b>			
<b>Fund capital</b>			
Initial capital		10,366	10,366
Retained earnings		27,142	24,284
Profit/loss for the year		7,649	2,858
<b>Total fund capital</b>		<b>45,157</b>	<b>37,508</b>
<b>Current liabilities</b>			
Derivative for currency hedging		39	81
Accrued expenses	14	136	114
Other current liabilities	15	138	93
<b>Total current liabilities</b>		<b>313</b>	<b>288</b>
<b>TOTAL FUND CAPITAL AND LIABILITIES</b>		<b>45,470</b>	<b>37,796</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 Swedish GAAP. Due to the law governing AP6, all investments must be measured at fair value in AP6's accounting. No changes took place in AP6's accounting policies in 2020.

### 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. AP6 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 an exception to IFRS.

### Recognition and measurement of unlisted securities

In accordance with law, AP6's investments must be valued at fair value. All valuations, both internal and external, are carried out in accordance with good practice for unlisted assets, where the IPEV (International Private Equity and Venture Capital Valuation Board, [www.privateequityvaluation.com](http://www.privateequityvaluation.com)) guidelines and recommendations provide the framework. To ensure that all externally managed assets (such as fund investments and co-investments) are measured at fair value, both European and US funds carry out their valuations in accordance with IPEV or a similar framework. Furthermore, they prepare their annual reports in accordance with IFRS 13 or the US GAAP requirements stipulated in ASC 830. In just a few cases, AP6 establishes values through its own assessments, which are carried out at 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. When AP6 makes its own valuations, it strives to use a combination of the valuation methods most suitable for showing the investment's fair value and thereby providing a true and fair result.

Annual reports are always compiled using the most recent and reliable information. AP6 is required by law to issue its annual report in February of each year. When preparing that report, however, the valuations of fund investments and co-investments as per year-end are not yet available to us. Neither is it possible to make an own assessment of the value of these holdings, which means that, when AP6 prepares the year-end closing, it uses the third quarter reporting from fund managers instead. In all instances, adjustment is made afterwards for the cash flows that occur through to year-end. For the companies where AP6 establishes the value itself however, 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. If internal rounds indicate a write-down, a more detailed analysis must be made, and if a company has been unsuccessful in its attempts to attract an external party, 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.

### Other accounting policies

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.

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. Impairment losses otherwise only arises when a PE firm in which AP6 has invested declares bankruptcy. It means that bankruptcies or liquidations of the fund's individual portfolio companies are not reported as an impairment loss, since AP6 is not directly invested in them.

AP6 manages some specific investments via dedicated holding companies. When a holding company's holdings are sold, there is revaluation to the transaction value. Once the dividend and payment is received by AP6, realized gain/loss will be recognized. Typically, it takes some time before AP6 receives the dividend, once the holding in the holding company has been sold. So, AP6 may report that an investment has been sold before it is able to report the fully realized gain/loss.

#### **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. Listed assets are comprised of shares, derivative instruments and fund units.

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 AP6 invests in, excluding investments in accounts with credit institutions, such as deposit accounts. All assets must be measured at market value, with value changes recognized in the Income Statement together with accrued interest in Note 3, "Other financial income and expenses".

#### **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 in unrealized gain/loss. 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 2020.

#### **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, AP6 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. When payment is made, and cost of acquisition is known, the holding is reported in Note 9. 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

	2020	2019
<b>Realized</b>		
Income from disposals	7,211	5,130
Capital invested	-2,315	-3,131
Reversed value change on divested holdings	-3,549	-1,750
	<b>1,347</b>	<b>249</b>
<b>Unrealized</b>		
Value change for the year	5,978	2,463
Exchange rate difference	121	-521
	<b>6,099</b>	<b>1,942</b>
<b>Total</b>	<b>7,446</b>	<b>2,191</b>

## Note 3 Other financial income and expenses

	2020	2019
Interest income	18	30
Interest expenses	-1	-3
Exchange rate difference	20	-13
	<b>37</b>	<b>14</b>

## Note 4 Management costs

	2020	2019
<b>Internal management costs</b>		
Personnel costs	36	37
Legal consultants	-	0
Other external services	1	2
Travel expenses, etc.	0	2
Charged VAT	1	1
Other costs	2	2
<b>Total</b>	<b>40</b>	<b>44</b>

There were no performance-based costs in 2020 (-).

External management and acquisition costs attributable to holdings in unlisted private equity funds and companies amounted to SEK 506 (514) million and 11 (11) million, respectively. At year-end, all management costs have been expensed and recognized in the income statement. They are reported in the year's value change on unrealized holdings in Note 2.

Liquidity management holdings include listed funds, for which management fees are deducted directly from the holding. Such fees amount to approximately SEK 1.9 (2.5) million and they impact each fund's market value.



## Note 5 Shared costs

	2020	2019
Personnel costs	31	30
Premises costs	6	9
IT costs	4	4
External services	1	1
Management costs	2	1
Travel expenses, etc.	0	1
Charged VAT	2	2
Other costs	3	3
<b>Total</b>	<b>49</b>	<b>51</b>

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

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

	2020	2019
<b>Audit assignment</b>		
Statutory audit (PwC)	0.7	0.8
Other audit (PwC)	–	–
<b>Total</b>	<b>0.7</b>	<b>0.8</b>

## Note 6 Personnel

### 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 employees participating in AP6's senior management team. The Board of Directors' guidelines on the terms and conditions of employment of senior executives and other employees at AP6 are published on [www.ap6.se](http://www.ap6.se).

### Applied regulations for remuneration and benefits in 2020

The Board of Directors decides the total annual salary revision and any variable remuneration. In 2019, a comparison was carried out by an external consultant of remuneration paid by comparable institutions, companies and funds. The Board of Directors' view is that the remuneration and benefits of AP6's senior executives and other staff are fair, moderate and competitive.

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 44. 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. For 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 200,000 per year for the chairman, SEK 150,000 for the deputy chairman and SEK 100,000 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 2020, remuneration to Board members was as follows (SEK/year): Catrina Ingelstam 200,000, Karin Reuterskiöld 100,000, Åsa Knutsson 100,000, Alexander Ljungqvist 100,000 and Urban Lindskog 150,000.

### 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.

The Managing Director and senior executives at year-end 2020 were as follow: Katarina Staaf, Margareta Alestig Johnson (until 30 September), Cecilia Gross Friberger (as of 1 October), 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 3.4 million, SEK 1.6 million, SEK 0.4 million, SEK 2.0 million, SEK 2.0 million, SEK 2.1 million, SEK 1.7 million and SEK 1.8 million.

Pensions, excluding employer's contribution, are as follows: SEK 1.0 million, SEK 0.5 million, SEK 0.2 million, SEK 0.6 million, SEK 0.6 million, SEK 0.6 million, SEK 0.5 million and SEK 0.5 million.

In addition to salaries, other remuneration and pensions, the following benefits were received: SEK 16 thousand, SEK 18 thousand, SEK 4 thousand, SEK 24 thousand, SEK 16 thousand, SEK 31 thousand, SEK 4 thousand and SEK 31 thousand.

		2020	2019
Average number of employees	Men	13	15
	Women	17	16
		<b>30</b>	<b>31</b>
Number of employees as of 2020-12-31*	Men	13	13
	Women	18	17
		<b>31</b>	<b>30</b>
Board of Directors	Men	2	2
	Women	3	3
		<b>5</b>	<b>5</b>
Senior Management	Men	5	5
	Women	2	2
		<b>7</b>	<b>7</b>

\* The full-time/part-time 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.

	2020	2019
<b>Salaries and fees</b>		
Chairman of the Board	0.2	0.1
Board of Directors, excl. Chairman	0.4	0.2
Managing Director	3.4	2.2
Managing Director as of 1 September	–	1.1
Senior Management, excl. Managing Director	11.6	11.9
Other employees	23.4	23.2
<b>Total</b>	<b>39.0</b>	<b>38.7</b>
<b>Other benefits</b>		
Managing Director	–	–
Senior Management, excl. Managing Director	0.1	0.1
Other employees	0.5	0.6
<b>Total</b>	<b>0.6</b>	<b>0.7</b>
<b>Pension expenses</b>		
Chairman of the Board	–	–
Board of Directors, excl. Chairman	–	–
Managing Director	1.0	0.6
Managing Director as of 1 September	–	0.3
Senior executives excl. Managing Director	3.5	3.5
Other employees	7.0	7.1
	<b>11.5</b>	<b>11.5</b>
<b>Social security expenses, incl. employers' contribution, excl. pension expenses</b>	<b>15.0</b>	<b>15.1</b>
<b>Personnel costs – Total</b>	<b>66.1</b>	<b>66.0</b>

## Note 7 Financial assets and liabilities by category

2020	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
Financial assets at fair value	42,111	1,760	280	44,151	44,151
Other current assets	–	–	47	47	47
Short-term investments	2	–	–	2	2
Cash and bank balances	1,270	–	–	1,270	1,270
<b>Total financial assets</b>	<b>43,383</b>	<b>1,760</b>	<b>327</b>	<b>45,470</b>	<b>45,470</b>
Accounts payables	–	–	3	3	3
Other liabilities	–	39	271	310	310
<b>Total financial liabilities</b>	<b>–</b>	<b>39</b>	<b>274</b>	<b>313</b>	<b>313</b>

2019	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
Financial assets at fair value	36,606	417	266	37,289	37,289
Other current assets	–	–	110	110	110
Short-term investments	2	–	–	2	2
Cash and bank balances	395	–	–	395	395
<b>Total financial assets</b>	<b>37,003</b>	<b>417</b>	<b>376</b>	<b>37,796</b>	<b>37,796</b>
Accounts payables	–	–	1	1	1
Other liabilities	–	81	206	287	287
<b>Total financial liabilities</b>	<b>–</b>	<b>81</b>	<b>207</b>	<b>288</b>	<b>288</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>				
Tobii	4,000,630	4.0	4.0	226
Asset class and manager for liquidity management				
<b>Index fund</b>				
SEB				574
Swedbank Robur				561
<b>Fixed-income funds</b>				
SEB				1,226
Swedbank Robur				1,234
<b>Mixed funds</b>				
Amundi				1,418
<b>Total</b>				<b>5,239</b>

Brokerage fees paid in 2020 amount to approximately SEK 0.7 (1.3) million.



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

	2020-12-31	2019-12-31
Funds	21,218	17,027
Co-investments	15,654	14,785
<b>Total market value unlisted shares and participations</b>	<b>36,872</b>	<b>31,812</b>

### Ten largest holdings of unlisted shares and participations, for each category

Funds	Share of equity % *
AlpInvest Co-Investment Fund (Lux Feeder) VII, SCSp	23.6
Bridgepoint Europe V C L.P	16.0
Carlyle Europe Partners IV, L.P	2.7
EQT Mid Market Europe (No.1) Feeder, L.P	4.9
EQT VII (No. 1) L.P	2.3
EQT VIII (No.1) SCSp	1.8
Nordic Capital VIII Beta, L.P	4.4
Nordic Capital IX Alpha, L.P	4.7
Permira VI L.P	1.4
Sixth Cinven Fund (No.2) L.P	1.0

AP6 has about a hundred active fund investments. The ten largest are presented above and they represent approximately 23 % of the total market value.

Co-investments	Investment	Share of equity % *
Adagio Co-Invest L.P	Allegro	5.5
Anticimex New TopHolding AB	Anticimex	4.5
BC European Capital X – Navigator Co-Investment (2) LP	Navex	25.2
Cinven Cullinan L.P	Allegro	5.5
Cinven Envirotainer Limited Partnership	Envirotainer	100.0
EQT VIII Co-Investment (A) SCSp	SuSe	7.1
IVC New TopHolding S.A.	IVC	5.4
Kite Co-Investment Limited Partnership	Kyriba	32.3
NC Alexander Co-Invest, L.P	Lindorff / Intrum	13.1
OneMed Top Holding AB	OneMed	18.5

AP6 has about sixty active co-investments. The ten largest are presented above and they represent approximately 23 % of the total market value.

<b>Total cost</b>	<b>30,490</b>
<b>Change in value</b>	<b>6,382</b>
<b>TOTAL MARKET VALUE</b>	<b>36,872</b>

\* Refers to share of equity in the investment.

A complete list of unlisted shares and participations is available at [www.ap6.se/en/](http://www.ap6.se/en/) under Documents/Annual Report.

**Note 10 Other interest-bearing instruments**

	2020	2019
Short interest-bearing securities	2	2
Loans to unlisted companies	280	266
<b>Total</b>	<b>282</b>	<b>268</b>

**Note 11 Other current receivables**

	2020	2019
Transactions not yet liquidated at year-end	–	48
Other	5	5
<b>Total</b>	<b>5</b>	<b>53</b>

**Note 12 Prepaid expenses and accrued income**

	2020	2019
Prepaid management fee	38	52
Other prepaid expenses and income	4	5
<b>Total</b>	<b>42</b>	<b>57</b>

**Note 13 Liabilities to credit institutions**

	2020	2019
Confirmed credit limit	2,000	1,500
Uncommitted credit limit	1,500	–
Unutilized part	-3,500	-1,500
<b>Utilized amount of credit</b>	<b>0</b>	<b>0</b>

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

All credit limits exist within the existing group account structure.

**Note 14 Accrued expenses**

	2020	2019
Accrued management fee	129	108
Other	7	6
<b>Total</b>	<b>136</b>	<b>114</b>

**Note 15 Other current liabilities**

	2020	2019
Transactions not yet liquidated at year-end	133	90
Accounts payables	3	1
Other	2	2
<b>Total</b>	<b>138</b>	<b>93</b>

**Note 16 Contingent liabilities and commitments**

	2020	2019
Contingent liabilities	69	76
Commitments – capital committed, not yet paid out	18,744	17,917
<b>Total</b>	<b>18,813</b>	<b>17,993</b>

**Note 17 Significant events after the financial year-end**

There have not been any significant events outside the scope of regular operations subsequent to year-end.

Gothenburg, 25 February 2021

Catrina Ingelstam  
Chairman of the Board

Urban Lindskog  
Deputy Chairman of the Board

Åsa Knutsson  
Board member

Alexander Ljungqvist  
Board member

Karin Reuterskiöld  
Board member

Katarina Staaf  
Managing Director

# AUDITOR'S REPORT

For the Sixth AP Fund, CIN 855104-0721

## REPORT ON THE ANNUAL ACCOUNTS

### Opinions

We have audited the annual accounts for the Sixth AP Fund for the year 2020. The annual accounts of the Sixth AP Fund are included on pages 32-47 of this document.

In our opinion, the annual accounts have been prepared in accordance with the Sixth Swedish National Pension Fund Act (2000:193) and present fairly, in all material respects, the financial position of the Sixth AP Fund as of 31 December 2020 and its financial performance for the year in accordance with the Sixth Swedish National Pension Fund Act.

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

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 the 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 the 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

### Focus and scope of the audit

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 judgments; 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 1-31. 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 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 opinions. 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 relate 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 opinions 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 have identified.

## **REPORT ON OTHER LEGAL AND OTHER 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 2020.

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 the 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 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 AP Fund’s organization and the administration of its affairs. This includes among other things continuous assessment of the Sixth AP Fund’s financial situation and ensuring that the Sixth AP Fund’s organization is designed so that the accounting, management of assets and the Sixth AP 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 fulfill the Sixth AP 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 2020.

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 a 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, 25 February 2021

Magnus Svensson Henryson  
*Authorised Public Accountant*  
*Appointed by the Swedish*  
*Government*

Peter Nilsson  
*Authorised Public Accountant*  
*Appointed by the Swedish*  
*Government*

# DEFINITIONS AND GLOSSARY

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

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

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

**Compliance** – Adherence to regulations.

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

**Direct investment** – With a direct investment, the investor obtains a holding in the form of shares in the unlisted company. This gives the investor direct ownership in the company.

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

**ESG** – Acronym for environmental, social and corporate governance.

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

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

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

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

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

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

**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, PE firm, pension funds and other investors work with economic, environmental and social issues.

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

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

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

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

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

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

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

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

**Unlisted assets** – These are primarily unlisted companies, which means companies that are not traded on a stock exchange.

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

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

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

**Private Equity Fund** – see Fund investment.

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

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

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

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

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

**SVCA** – Swedish Private Equity & Venture Capital Association.

**UN Global Compact** – Ten principles about companies and human rights, 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.

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** – When an investor decides to invest in a fund, it is for a specific amount (which is the commitment made). That amount is later paid out in installments. It is paid at the rate that the fund invests in companies.  
See also Fund investments.

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

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





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## Visit our website for more information

More information about the organization, investing activities, holdings, sustainability, etc. is available on AP6's website. There are also reports and documents that can be downloaded.

[www.ap6.se/en](http://www.ap6.se/en)



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