

Quarterly Report Q1 2019

Fall in interest rates prevents increase in ABP coverage ratio

Highlights:

- Current coverage ratio rises to 99.0%
- Policy coverage ratio falls to 102.4%
- Liabilities rise due to falling interest rates (+€25 billion)
- Return on investments first quarter +8.2% (+€32.5 billion)

Heerlen/Amsterdam, April 18, 2019. **ABP's financial position improved in the first quarter of 2019. The current coverage ratio rose by 2% to 99.0%. A very positive contribution to this was the return of 8.2% (€32.5 billion). In one fell swoop, this compensated for the negative return of 2018 (-2.3%). The fall in interest rates caused an increase in pension liabilities of €25 billion. As a result, the development of interest rates is slowing down the increase in the current coverage ratio. However, the policy coverage ratio, which is important for pension increases or reductions, fell from 103.8% to 102.4% in the first quarter. This percentage is now almost 2% below the minimum required level of 104.2%.**

Chairman Corien Wortmann-Kool: "After a disappointing investment year in 2018, we are seeing a nice plus in returns again in the first quarter of this year. Unfortunately, we are also seeing a fall in interest rates, which are expected to remain low for some time to come. This is not good news because it means we need to keep more money in reserve in order to meet our pension obligations. For our participants, ABP's current financial position means that we still do not expect to be able to increase pensions in the coming years. And there's a very real likelihood of a reduction in pensions in 2021. For ABP, the final reference date for deciding whether or not to reduce pensions is the end of 2020. Until then, we have time to bring the policy coverage rate up to standard. The policy coverage rate changes slowly because it is an average of twelve months."

What can ABP's participants expect?

Pensions will remain the same in 2019. With regard to 2020, there is currently only a slight likelihood of pensions being reduced. For subsequent years, it continues to be likely that pensions will be reduced, with a very real likelihood of reduction in 2021. Nor do we expect to be able to increase pensions in line with price rises (indexation) in 2020 and subsequent years within the current legal framework.

APB's coverage ratios: level and significance

In the first quarter, the current policy coverage ratio rose from 97% at the end of December to 99.0% at the end of March 2019. The policy coverage ratio (the average of the coverage ratios over the past twelve months) fell in the first quarter from 103.8% to 102.4%. On the one hand, this coverage ratio determines the rise of the pension. Partial indexation is possible given a policy coverage ratio of 110% or higher. Full indexation is permitted when the policy coverage ratio is 123% or higher. At the current 102.4%, this is still far off. On the other hand, the policy coverage ratio can play a role in the reduction of pensions. If the policy coverage ratio remains below the required level of 104.2% until the end of 2020 and the current coverage ratio at the end of 2020 is also lower than 104.2%, the reduction of pension accrual and benefits will be unavoidable.

The coverage ratio of a pension fund provides an indication of whether a pension fund is able to pay out all its pensions, now and in the future. It shows the ratio between the available assets (€431 billion) and the liabilities of ABP, which are all the accrued current and future pension payments (€436 billion).

How did ABP's investments and liabilities fare in 2018?

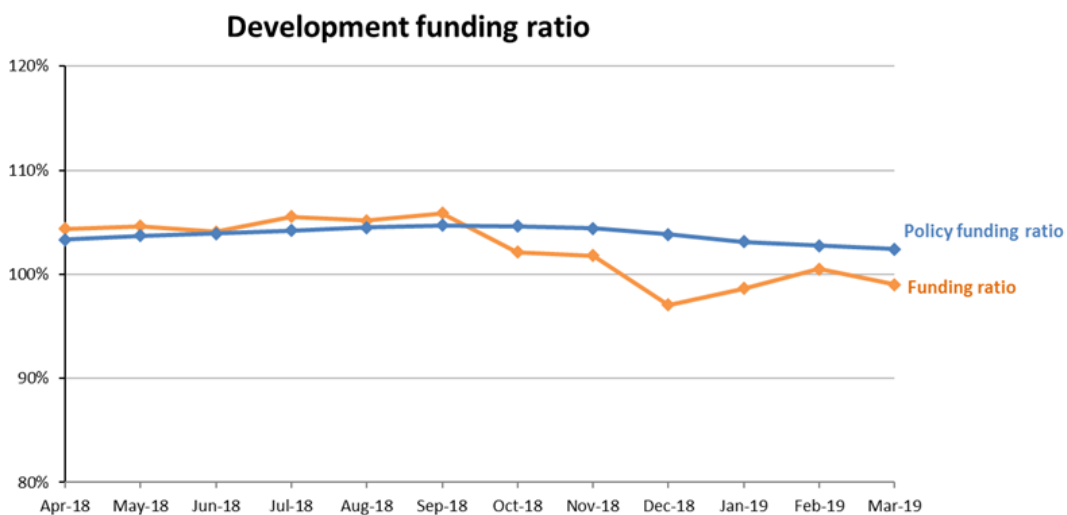
In the first three months of 2019, ABP's available assets grew strongly from €399 billion to €431 billion, thanks to a good return of +8.2%. €32.5 billion was added to available assets. Almost all asset classes made a positive contribution. Equities and real estate in particular showed a strong plus (14.2% and 10.4%, respectively). The portfolio covering risk (interest rate, inflation, currency) was the only one with a small minus (-0.1%).

In the fourth quarter the actuarial interest rate fell by 0.3% points to 1.1%. This had a significant impact on the value of the pensions that ABP has to pay out now and in the future. The consequence was an increase from €411 billion at the end of December 2018 to €436 billion at the end of March this year. This rise had a negative impact on the coverage ratio. If the interest rate falls, funds have to keep more of their assets in a liquid form to meet all their liabilities. In the first quarter, the fall in the interest rate resulted in a 3% coverage ratio.

Investment outlook

The outlook for the global economy is moderately positive. Against the backdrop of declining business confidence in Europe, there are renewed support measures for the Chinese economy and a pause in the tightening of the monetary policies of the major central banks. Risks of a political nature have slightly diminished: the risk of a chaotic 'Brexit' has been reduced and the trade conflict between the US and China does not seem to be escalating further. In financial markets, interest rates are very low and stock markets are predicting favorable conditions. We therefore expect lower returns than in recent years.

Key Figures	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Policy coverage ratio (%)	103.0	103.9	104.7	103.8	102.4
Coverage ratio (%)	103.0	104.1	105.9	97.0	99.0
Available assets (€ billions)*	405	414	419	399	431
Liabilities (€ billions)	393	398	396	411	436
Actuarial interest rate (%)	1.5	1.4	1.5	1.4	1.1



ABP investment portfolio composition:

Q1-2019	Gewicht in %	Q1 2019		t/m Q1 2019		2018	
		Rendement in %	in mld €	Rendement in %	in mld €	Rendement in %	in mld €
Vastrentende Waarden Nominaal	39,9	3,9	6,3	3,9	6,3	0,4	0,6
Staatsobligaties	8,0	2,3	0,7	2,3	0,7	-	-
Langlopende Staatsobligaties	7,3	5,4	1,6	5,4	1,6	1,3	0,4
Bedrijfsobligaties	13,8	4,4	2,5	4,4	2,5	2,0	1,1
Obligaties opkomende landen	3,1	6,6	0,8	6,6	0,8	-1,8	-0,2
Inflatie gerelateerde obligaties	7,7	2,3	0,7	2,3	0,7	-2,1	-0,7
Aandelen	33,3	14,2	18,6	14,2	18,6	-5,9	-8,1
Aandelen ontwikkelde landen	24,7	14,3	14,0	14,3	14,0	-4,0	-3,8
Aandelen opkomende landen	8,6	13,9	4,6	13,9	4,6	-11,9	-4,3
Alternatieve beleggingen	16,5	5,5	3,8	5,5	3,8	6,8	4,6
Private Equity	5,0	3,0	0,6	3,0	0,6	15,4	2,9
Grondstoffen	3,7	15,8	2,4	15,8	2,4	-8,0	-1,2
Opportunity Fund	0,3	5,5	0,1	5,5	0,1	5,5	0,1
Infrastructuur	2,9	2,9	0,4	2,9	0,4	12,4	1,3
Hedge fondsen	4,6	1,6	0,3	1,6	0,3	8,5	1,5
Vastgoed	10,3	10,4	4,2	10,4	4,2	3,3	1,3
Vastgoed	10,3	10,4	4,2	10,4	4,2	3,3	1,3
Portefeuille rendement (voor overlay)	100,0	8,3	32,9	8,3	32,9	-0,4	-1,6
Overlay *	0,0	-0,1	-0,4	-0,1	-0,4	-1,9	-7,6
Rente- en inflatiehedge *		0,8	3,2	0,8	3,2	0,4	1,6
Valutahedge *		-0,7	-2,9	-0,7	-2,9	-2,3	-9,5
Cash en overig *		-0,2	-0,7	-0,2	-0,7	0,1	0,2
Totaal	100,0	8,2	32,5	8,2	32,5	-2,3	-9,3

* contributie aan totaal rendement

Profile

The General Pension Fund for Public Employees (ABP) is the industry-wide pension fund for employers and employees of government and educational institutions in the Netherlands. ABP has more than 2.9 million participants and €431 billion in available assets (as at March 31, 2019).