Uw vermogen om te leven

Quarterly Report Q2 2018

Minor improvement in ABP position in second quarter

Highlights:

- **ABP policy coverage ratio almost at minimum required level**
- **Pensions most likely to stay at same level in 2019**
- **Return on investments in second quarter +2.3% (+ €9.2 billion)**

Heerlen/Amsterdam, July 19, 2018. **The second quarter of 2018 once again showed improvements for ABP. As such, the pension fund has cautiously resumed its rising trend, which had been interrupted in the first quarter. There were slight improvements in the coverage ratio, the return, and assets. At almost 104%, the policy coverage ratio, which is a key factor in increasing or decreasing pensions, is closely approaching the minimum required level. Based on the current financial position, the pensions of ABP participants is likely to remain the same in 2019.**

Chairman Corien Wortmann-Kool: "ABP's financial position is improving little by little. We have almost filled the minimum required buffer, but at the same time there is still no room to maneuver. For our participants this means that pensions almost certainly will not increase in 2019, but also that they will not decrease. Once again it appears that pensions under the current system are uncertain. We are currently dependent on the returns on our investment, but just as important, also on interest rate levels. We have to invest now and in the future to be able to offer a good pension. This yields more than savings. A new pension system could to a large degree provide a solution to the major dependence on interest rates, the increased flexibility on the labor market and the need for individual options. But even then, pensions will continue to be uncertain."

<u>What ABP participants can expect</u>

On the basis of our position at the end of the second quarter 2018, the chance of pensions being lowered in 2019 is virtually nil. We expect that we will be unable to index pensions in 2019 and the years following. The built-up reserve is still too small for this purpose. For the years following 2019, there continues to be a possibility that pensions will have to be lowered. The policy coverage ratio trend is of major importance in this respect.

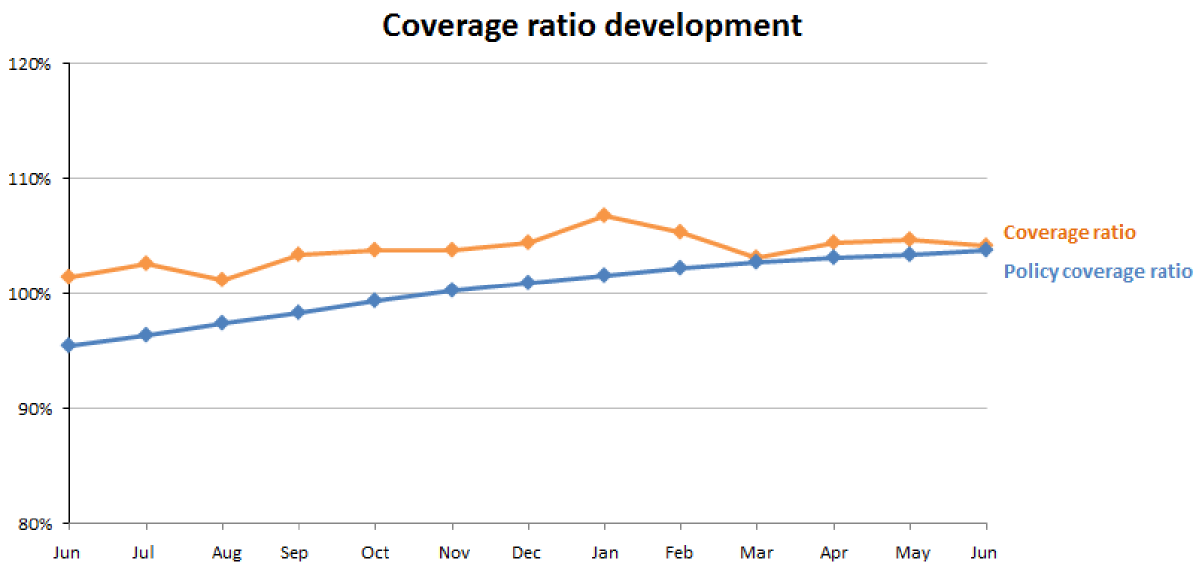
<u>ABP's coverage ratios: levels and interpretation</u>

The coverage ratio of a pension fund provides an indication of the pension fund's ability to pay out pensions now and in the future. It reflects the ratio between ABP's available assets (€414 billion) and its liabilities, i.e., all of its current and future pension payments (€398 billion).
In the second quarter, the current coverage ratio increased from 103% at the end of March to 104.1% at the end of June 2018. For every €100 paid out in pension by ABP, it has €104.10 in assets. This is a small buffer, although it does not yet meet the minimum required size (104.2%).
In the second quarter, the policy coverage ratio (the average of the current coverage ratios over the last twelve months) increased from 103% at the end of March to 103.9% at the end of June. On the one hand, this coverage ratio is a determining factor for increasing pensions. Partial indexation is permitted when the policy coverage ratio is 110% or higher. Full indexation is permitted when the policy coverage ratio is 123% or higher. Given the current 103.9% this is therefore still a long way off. On the other hand, the policy coverage ratio can also play a role in lowering pensions. If the policy coverage ratio remains below the required level of 104.2% up to the end of 2020 (for a consecutive five-year period), reducing pensions will be unavoidable.

Performance of ABP's investments and change in ABP's liabilities in the second quarter of 2018.
The available assets increased from €405 billion to €414 billion. ABP achieved a positive return of 2.3% (€9.2 billion). The key contributions were made by the categories equities, alternative investments, and real estate. The positive returns in these categories must be viewed in the context of the currency hedge used by ABP to cover its currency risks. The currency hedge was negative during the second quarter due to the weak position of the euro in relation to other important currencies such as the dollar. Fixed-income securities contributed €0.9 billion, primarily due to the positive return on corporate bonds. The return over the first six months of 2018 was +1.3% (€5.3 billion).
The actuarial interest rate dropped by 0.1% in the second quarter. The value of the pensions that ABP must pay out now and in the future consequently rose slightly to €398 billion. This is due to the fact that when the interest rate drops, the fund must increase its assets to be able to meet all of its obligations, now and in the future.

Investments outlook
The growth of the global economy, as well as company profits, will probably continue to be high over the coming quarters. In part due to rising oil prices, inflation is increasing. Central banks are reversing their stimulus policy. They are looking for a balance between normalization on the one hand and avoiding a slowdown in economic growth on the other hand. An increase in the policy interest rate can be viewed as a sign of confidence in economic growth by policymakers. However, reversing the stimulus policy too fast can result in price fluctuations on equity markets, because investors view increasing interest expenses as a threat to growth. Aside from the potential instability of the global trade climate, this balance between growth and monetary policy will be the most important theme for the financial markets.

Key figures	**Q2 2017**	**Q3 2017**	**Q4 2017**	**Q1 2018**	**Q2 2018**
Policy coverage ratio (%)	96.3	99.3	101.5	103.0	103.9
Coverage ratio (%)	101.3	103.3	104.4	103.0	104.1
Available assets (€ billions)*	389	396	409	405	414
Liabilities (€ billions)	383	383	392	393	398
Actuarial interest rate (%)	1.5	1.6	1.5	1.5	1.4



Stichting Pensioenfonds ABP is gevestigd te Heerlen en ingeschreven in het handelsregister van de Kamer van Koophandel Limburg onder nummer 41074000.

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 2.9 million participants and €414 billion in available assets (as at 30 June, 2018).

Appendix: Investment Portfolio Composition and Return

		Q2 2018		2018		2017	
	Weight	Return		Return		Return	
	%	%	€ billions	%	€ billions	%	€ billions
Fixed-income securities	**37.2**	**0.6**	**0.9**	**0.1**	**0.2**	**-0.2**	**-0.3**
Government bonds	5.7	-0.7	-0.2	-0.2	-0.1	0.3	0.1
Long-term government bonds	7.2	0.8	0.2	1.3	0.4	1.2	0.4
Corporate bonds	13.5	2.6	1.4	0.6	0.3	-2.2	-1.2
Emerging market bonds	2.8	-3.4	-0.4	-4.1	-0.5	-1.0	-0.1
Inflation-linked bonds	8.1	-0.3	-0.1	0.0	0.0	1.5	0.5
Equity	**35.0**	**4.4**	**6.3**	**1.8**	**2.8**	**12.3**	**16.0**
Equity developed countries	26.7	7.1	7.6	3.9	4.3	8.7	8.7
Equities emerging markets	8.3	-3.7	-1.3	-4.5	-1.6	23.0	7.4
Alternative investments	**17.4**	**8.2**	**5.5**	**7.8**	**5.2**	**0.1**	**0.1**
Private equity	4.9	8.4	1.6	7.2	1.4	9.7	1.7
Commodities	4.7	10.7	1.9	12.1	2.2	-4.9	-0.7
Opportunity fund	0.3	6.4	0.1	8.2	0.1	-12.6	-0.3
Infrastructure	2.9	5.5	0.6	6.2	0.7	8.3	0.8
Hedge funds	4.6	7.2	1.3	4.9	0.9	-7.5	-1.5
Real estate	**9.9**	**7.1**	**2.7**	**3.9**	**1.5**	**3.4**	**1.3**
Real estate	9.9	7.1	2.7	3.9	1.5	3.4	1.3
Portfolio return (before overlay)	**99.5**	**3.8**	**15.4**	**2.4**	**9.7**	**4.5**	**17.1**
Overlay*	**0.5**	**-1.5**	**-6.2**	**-1.1**	**-4.4**	**3.1**	**11.6**
Interest rate and inflation hedge*		0.2	0.7	0.2	0.7	-0.4	-1.4
Currency hedge*		-1.7	-6.8	-1.2	-4.9	3.4	12.9
Cash and other*		0.0	-0.1	-0.1	-0.3	0.0	0.1
Total	**100.0**	**2.3**	**9.2**	**1.3**	**5.3**	**7.6**	**28.7**

*Contribution to total return.