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Press Release Q2 2019

Coverage ratio of ABP falls as a result of lower interest rates

The likelihood of pensions being reduced at ABP in 2020 has increased considerably

Highlights:

- **Current coverage ratio falls to 95.3%**
- **Policy coverage ratio rises to 100.6%**
- **Liabilities rise due to falling interest rates (+€28 billion)**
- **Return on investments second quarter +2.5% (+€10.9 billion)**
- **Available assets rose to €442 billion**

Heerlen/Amsterdam, July 18, 2019. **ABP's financial position deteriorated in the second quarter of 2019. The current coverage ratio fell by almost 4% to 95.3%. The positive return on investments of 2.5% (almost €11 billion) could not prevent this decline. A further fall in interest rates caused ABP's pension liabilities to rise to a record level: €464 billion.**
In the second quarter, the actuarial interest rate fell from 102.4% to 100.6%.
The likelihood of pensions being reduced at ABP in 2020 increased considerably in the second quarter.

Chairman Corien Wortmann-Kool: "Interest rates have again fallen sharply in this quarter, which is bad news for pension funds because it means we need to keep more money in reserve in order to meet our pension liabilities. We have achieved good returns, but interest rates have a much greater impact on our funding ratio. The interest rates are why we now have the lowest coverage ratio in years. As a result, a reduction in pensions is becoming more likely. The likelihood that we will be obliged to reduce participants' pensions in 2020 has increased considerably and there continues to be a very real likelihood of a reduction in 2021. I am concerned about the growing gap between our Pension Agreement targets and what participants receive or expect. What constitutes a good pension is highly dependent on the individual situation of the participants. I therefore advise our participants to look at MijnABP, which provides insight into their personal situation."

<u>What can ABP's participants expect?</u>
Pensions will remain the same in 2019. With regard to 2020, the likelihood of pensions being reduced has increased considerably compared to the first quarter of this year. This is due to lower interest rates, but also because pension funds with a lower than expected return will have to start calculating from 2020 (see the explanation below). With regard to 2021, there is still a very real likelihood of pensions being reduced. This has an impact on the pension accrual of employees and on the pension benefits of retired employees. Within the current legal framework, we do not expect to be able to increase pensions in line with price rises (indexation) in 2020 and subsequent years.

<u>APB's coverage ratios: lower limits have been amended</u>
In the second quarter, the actual coverage ratio fell from 99.0% at the end of March 2019 to 95.3% at the end of June. The policy coverage ratio (the average of the coverage ratios over the past twelve months) fell in the second quarter from 102.4% to 100.6%.
Both coverage ratios can play a role in the reduction of pensions. This would be obligatory if the current coverage ratio were to drop below the critical level (±95%) at the end of 2019 or if the policy coverage ratio and the current coverage ratio were to remain below the required level of 100% until the end of 2020.

The lower limits of both coverage ratios changed in the second quarter. The Pension Agreement stipulates that if the policy coverage ratio of ABP exceeds 100% by the end of 2020, there is no need to reduce it. The previous limit was 104.2%.
The critical lower limit of the current coverage ratio has risen. It increases from about 88% to 95%. If ABP falls below 95% by the end of 2019, it will need to reduce pensions in the course of 2020. The fund is currently at 95.3%, which is dangerously close to the critical limit.
The increase in the critical lower limit is a consequence of advice given by the Dijsselbloem Committee to the Cabinet. This requires pension funds to calculate a lower expected return on investments as from 2020. And calculating a lower return for the future means that the fund's financial position will recover more slowly, which increases the likelihood of a reduction. Incidentally, ABP has also assumed a lower return in the future, for example when setting the premium.

No indexation of pensions is envisaged for the time being. Partial indexation is possible given a policy coverage ratio of 110% or higher. Full indexation is permitted when the policy coverage ratio is 121.4% or higher. This is not the case since our current coverage ratio is 100.6%. This may change with the introduction of a new Pension Agreement, but ABP expects that it will take a few more years before the new agreement is introduced.

What did ABP’s investments and liabilities do in the second quarter of 2019?
In the second quarter of 2019, ABP’s available assets grew from €431 billion to €442 billion, thanks to a good return of +2.5%. Almost €11 billion was added to available assets. Almost all asset classes made a positive contribution. Exceptions to this were the categories real estate (-0.4%) and commodities (-3.6%).
As in the first three months, actuarial interest rates fell again by 0.3% in the second quarter to 0.8%. 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 €436 billion at the end of March to €464 billion at the end of June 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.

Investment outlook
Monetary authorities seem determined to counteract lower inflation expectations and a sharp downturn in the economy. This keeps policy interest rates low for longer. This also affects the interest rates that determine the value of the pension liabilities. Equity markets are already predicting quite optimistic conditions. We therefore expect lower returns for the investment portfolio than those in recent years.

Key Figures	**Q2 2018**	**Q3 2018**	**Q4 2018**	**Q1 2019**	**Q2 2019**
Policy coverage ratio (%)	103.9	104.7	103.8	102.4	100.6
Coverage ratio (%)	104.1	105.9	97.1	99.0	95.3
Available assets (€ billion)	414	419	399	431	442
Liabilities (€ billions)	398	396	411	436	464
Actuarial interest rate (%)	1.4	1.5	1.4	1.1	0.8

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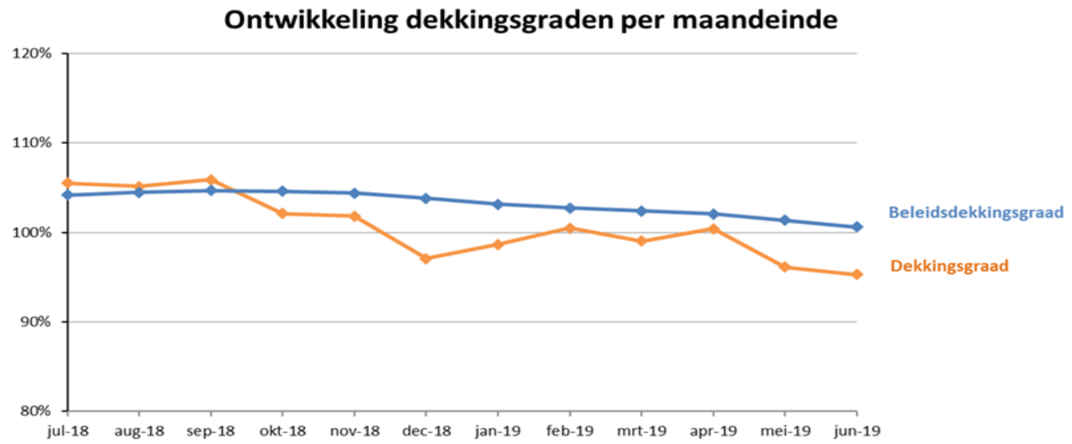
Development of coverage ratios at the end of the month



Investment portfolio composition and returns

	Weight	Q2 2019 Return		2019 YTD Return		2018 Return	
	%	in %	in billion €	in %	in billion €	in %	in billion €
Fixed Income	**38.7**	**2.9**	**4.8**	**7.0**	**11.2**	**0.4**	**0.6**
Treasuries	7.7	2.9	0.9	5.3	1.6	0.0	0.0
Treasuries Long Duration	7.6	5.4	1.7	11.1	3.3	1.3	0.4
Credits	13.6	2.0	1.2	6.4	3.6	2.0	1.1
Emerging Market Debt	3.1	3.4	0.5	10.2	1.3	-1.8	-0.2
Inflation Linked Debt	6.6	1.9	0.6	4.2	1.3	-2.1	-0.7
Equity	**33.6**	**1.6**	**2.3**	**16.0**	**21.0**	**-5.9**	**-8.1**
Equity Developed	25.6	2.1	2.3	16.7	16.3	-4.0	-3.8
Equity Emerging	8.0	0.2	0.1	14.1	4.7	-11.9	-4.3
Alternative investments	**16.8**	**0.8**	**0.6**	**6.4**	**4.4**	**6.8**	**4.6**
Private Equity	5.2	4.2	0.9	7.3	1.5	15.4	2.9
Commodities *	4.1	-3.6	-0.6	11.7	1.8	-8.0	-1.2
Opportunity Fund	0.2	-13.7	-0.2	-9.0	-0.1	5.5	0.1
Infrastructure	2.8	3.4	0.4	6.4	0.8	12.4	1.3
Hedge Funds **	4.4	0.3	0.1	1.9	0.4	8.5	1.5
Real Estate	**9.9**	**-0.4**	**-0.2**	**10.0**	**4.0**	**3.3**	**1.3**
Real Estate	9.9	-0.4	-0.2	10.0	4.0	3.3	1.3
Portfolio return (before overlay)	**99.0**	**1.8**	**7.6**	**10.2**	**40.5**	**-0.4**	**-1.6**
Overlay ***	**1.0**	**0.8**	**3.3**	**0.7**	**2.9**	**-1.9**	**-7.6**
Interest- and inflationhedge ***		0.7	2.9	1.5	6.1	0.4	1.6
Currency hedge ***		0.2	0.7	-0.6	-2.2	-2.3	-9.5
Other ***		-0.1	-0.4	-0.3	-1.0	0.1	0.2

Total	**100.0**	**2.5**	**10.9**	**10.9**	**43.4**	**-2.3**	**-9.3**

* Commodities has 100% USD exposure, expressed in USD the return over Q2 is -2.2%, YTD return is 11.2%

** Hedge funds has 100% USD exposure, expressed in USD the return over Q2 is 1.7%, YTD return is 1.6%.

*** contribution to total portfolio

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 3 million participants and €442 billion in available assets (as at June 30, 2019).