Quarterly report Q3 2019

ABP Pension reduction expected in the coming years

Highlights:

- **Current coverage ratio falls to 91%**
- **Policy coverage ratio rises to 97%**
- **Liabilities rose by +€40 billion to €504 billion**
- **Return on investments third quarter +3.8% (+€17 billion)**
- **Available assets rose to €459 billion**

Heerlen/Amsterdam, October 17, 2019. **Pension reduction at ABP in 2020 and subsequent years will be increasingly likely. This is because the falling coverage ratios trend continued in the third quarter of 2019. The current coverage ratio fell by 4.3% to 91.0%. The positive return on investments (€17 billion) could not prevent this decline. Falling interest rates triggered a major rise in ABP's pension liabilities. Liabilities surpassed the €500-billion mark for the first time. The sharp fall in interest rates in August in particular was a major blow for ABP's coverage ratio.**

<u>What can ABP's participants expect?</u>

Chair Corien Wortmann-Kool: "The interest rate fell further in the previous quarter. That is bad news for our participants. Despite good returns, the coverage ratio has fallen below the critical limit. In all likelihood, we will have to reduce pensions next year, and it does not look good for the coming years either.
The persistent low interest rate is a reality that we obviously need to take into account. Otherwise, we are investing well and we will continue to do so, although future returns on investments are likely to be somewhat lower than in the past twenty years. We have set our hopes on the speedy implementation of the pension agreement, and on measures taken in the transitional period aimed a new pension contract that precludes unnecessary long-term reductions. Based on our expertise, we are thinking about and working on this."

For 2020, the likelihood of pensions being reduced has increased considerably compared to the second quarter of this year. This is on account of the lower interest rate. If ABP's current coverage ratio on 31 December 2019 is below 95%, the fund will be obliged to reduce pensions in the fall of 2020. At 91%, the fund is under the critical limit as things stand now.
Based on the prevailing situation, the reduction in the pensions would be between 0% and 1.5%. For a pension of 800 euros net per month, that means a reduction of between 0 and 12 euros net per month. The reduction also affects the pension accrual of employees.
A further reduction in the pension for 2021 and subsequent years is on the cards.

<u>APB's coverage ratios</u>
The current coverage ratio fell in the third quarter from 95.3% at the end of June to 91.0% at the end of September. This coverage ratio may fluctuate considerably in the third quarter too. In July it fell to 93.9%, in August it dropped further to 88.6%, to then pick up again slightly to 91.0% in September.
The policy coverage ratio, i.e. the average of the coverage ratios over the previous twelve months, fell in the third quarter from 100.6% to 97%.
Both coverage ratios play a role in the reduction of pensions. Pension reduction is inevitable if the current coverage ratio drops below the critical level (approx. 95%) at the end of 2019. For the following year, this will

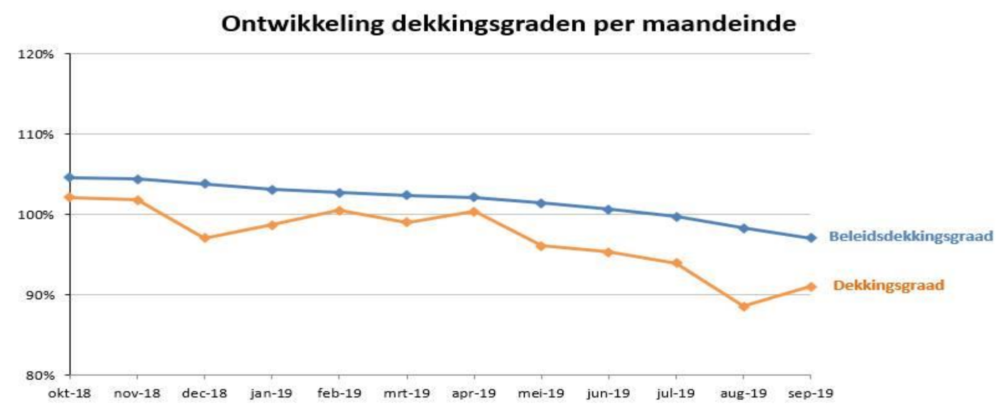
be the case if the policy coverage level and the current coverage ratio fall below the required level of 100% at the end of 2020.

How did ABP's investments and liabilities perform in the third quarter of 2019?
In the third quarter of 2019, ABP's available assets grew from €442 billion to €459 billion thanks to a good return on investment of +3.8%. Available assets were boosted by €17 billion. Fixed-income securities and shares, as well as alternative investments (for instance private equity, infrastructure), and real estate showed good returns on investment.
A return on investment of 15.1% was achieved up to and including the third quarter, earning more than €60 billion.
The actuarial interest rate fell even further in the third quarter, settling at 0.4%. 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 €464 billion at the end of June to €504 billion at the end of September this year. This increase had a negative impact on the coverage ratio. If the interest rate falls, funds have to keep more of their assets in liquid form to meet all their liabilities.

Investment outlook
Low inflation and a slowdown in growth are an incentive for central banks to keep interest rates low. Despite the less positive prospects, the equity markets are only slightly below record levels and will continue to respond strongly to developments in the US-China trade conflict and in the Brexit negotiations. Any deals in the short term will not eliminate the uncertainties. We therefore expect lower returns on investment in the coming period than those in recent years.

Key figures	**Q3 2018**	**Q4 2018**	**Q1 2019**	**Q2 2019**	**Q3 2019**
Policy coverage ratio (%)	104.7	103.8	102.4	100.6	97.0
Coverage ratio (%)	105.9	97.1	99.0	95.3	91.0
Available assets (€ billion)	419	399	431	442	459
Liabilities (€ billions)	396	411	436	464	504
Actuarial interest rate (%)	1.5	1.4	1.1	0.8	0.4

* The key factors causing movements in available assets are the investment return achieved, contributions received, and benefits paid.



Investment portfolio composition and returns

ABP Samen bouwen aan goed pensioen

	Weight	Q3 2019 Return		2019 YTD Return		2018 Return	
	in %	in %	in € billion	in %	in € billion	in %	in € billion
Fixed-income securities	**39.9**	**4.2**	**7.2**	**11.4**	**18.3**	**0.4**	**0.6**
Government bonds	9.6	3.1	1.2	8.6	2.8	0.0	0.0
Long-term government bonds	7.9	7.0	2.4	18.9	5.7	1.3	0.4
Corporate bonds	13.6	4.1	2.5	10.8	6.1	2.0	1.1
Emerging market bonds	3.7	3.7	0.5	14.4	1.8	-1.8	-0.2
Inflation-linked bonds	5.1	2.3	0.6	6.6	1.9	-2.1	-0.7
Equity	**33.0**	**3.6**	**5.5**	**20.2**	**26.4**	**-5.9**	**-8.1**
Equities, developed countries	25.8	4.5	5.2	21.9	21.5	-4.0	-3.8
Equities, emerging markets	7.2	0.8	0.3	15.0	5.0	-11.9	-4.3
Alternative investments	**16.8**	**4.3**	**3.2**	**11.1**	**7.6**	**6.8**	**4.6**
Private equity	5.4	7.8	1.8	15.7	3.3	15.4	2.9
Commodities *	3.9	-0.2	-0.1	11.4	1.7	-8.0	-1.2
Opportunity Fund	0.2	1.4	0.0	-7.7	-0.1	5.5	0.1
Infrastructure	2.8	2.8	0.3	9.4	1.1	12.4	1.3
Hedge funds **	4.5	5.5	1.1	8.0	1.5	8.5	1.5
Real estate	**10.1**	**5.6**	**2.4**	**16.2**	**6.5**	**3.3**	**1.3**
Real estate	10.1	5.6	2.4	16.2	6.5	3.3	1.3
Portfolio return (before overlay)	**99.7**	**4.1**	**18.3**	**14.8**	**58.9**	**-0.4**	**-1.6**
Overlay * **	**0.3**	**-0.4**	**-1.7**	**0.3**	**1.2**	**-1.9**	**-7.6**
Interest rate and inflation hedge ***		0.9	4.0	2.5	10.0	0.4	1.6
Currency hedge ***		-1.3	-5.7	-2.0	-7.9	-2.3	-9.5
Cash and other ***		0.0	0.0	-0.2	-1.0	0.1	0.2
Total	**100.0**	**3.8**	**16.6**	**15.1**	**60.1**	**-2.3**	**-9.3**

* Commodities have 100% USD exposure; expressed in USD the return over Q3 was -4.5%; YTD return was 6.3%

* Hedge funds have 100% USD exposure; expressed in USD the return over Q3 was 1.0%; YTD return was 3.0%

*** Contribution to total return on investment