ABP Samen bouwen aan goed pensioen

Annual Report 2019

No reduction in 2020, likelihood of reduction in coming years remains real

- **ABP does not need to reduce pensions in 2020**
- **Annual return of 16.8% (67 billion euros)**
- **Increase in pension liabilities of 65 billion euros due to lower interest rate**
- **Current coverage ratio of 97.8% (year-end 2018: 97.1%)**

Heerlen/Amsterdam, January 23, 2020. **ABP recorded a return of 16.8% in 2019 and added 67 million euros to the fund's assets. The substantial decline in interest rate resulted in a 65-billion euro increase in the pension liabilities during the course of the year. As a result, the coverage ratio at the end of December 2019 was only slightly different (0.7%) from the ratio at year-end 2018. The decline in the current coverage ratio in the second and third quarters of 2019 was compensated for by the increase in the last quarter. The current coverage ratio of 97.8% ultimately recorded at the end of December (which is above the critical limit of 95%) removed the need to reduce pensions in 2020. The fund did not need to make use of the guidelines provided by Mr. Koolmees, Minister of Social Affairs. However, the policy coverage ratio, which is important for pension increases or reductions, was 95.8% at the end of 2019. Consequently, the likelihood of reductions in 2021 and the following years remains real.**

Chairman, Corien Wortmann-Kool: "We recorded a good return in 2019, but the low interest rate had a great influence on the calculation of our pension liabilities. It initially appeared that ABP would also have to reduce its pensions, but with a coverage ratio of 97.8% we did not need to do so. This brings the calm needed to draw up the new pension contract, I really hope the government and employers' and employees' organizations will press on with this. We are contributing to and cooperating with this as we are aware of the significance of a new contract for our participants. The new contract will need to more effectively reflect the personal situation of our participants, as well as economic reality, so that we can increase pensions more often in times when economic conditions are favorable. However, pursuant to the new contract, we will sometimes also have to reduce pensions when the conditions are unfavorable. Although we enjoyed a good investment year, we expect that the interest rate will remain low in the coming years and, in line with other major investors, we also expect lower average returns of around 4%."

What can ABP's participants expect?

Pensions will remain unchanged in 2020. However, the likelihood of pensions being reduced in 2021 and the following years is currently real. We also do not expect to be able to raise pensions in line with indexation in the following years.

ABP's coverage ratios: level and significance

The current coverage ratios at the ends of 2018 and 2019 differed by just 0.7%. However, the current coverage ratio did fluctuate considerably during the course of the year under review: During the first quarter, the ratio increased slightly from 97.1% to 99.0%, fell sharply during the second and third quarters under the influence of declining interest rates to 91.0% at the end of September 2019, and then increased in the fourth quarter due to increasing interest rate to 97.8% at the end of the year.

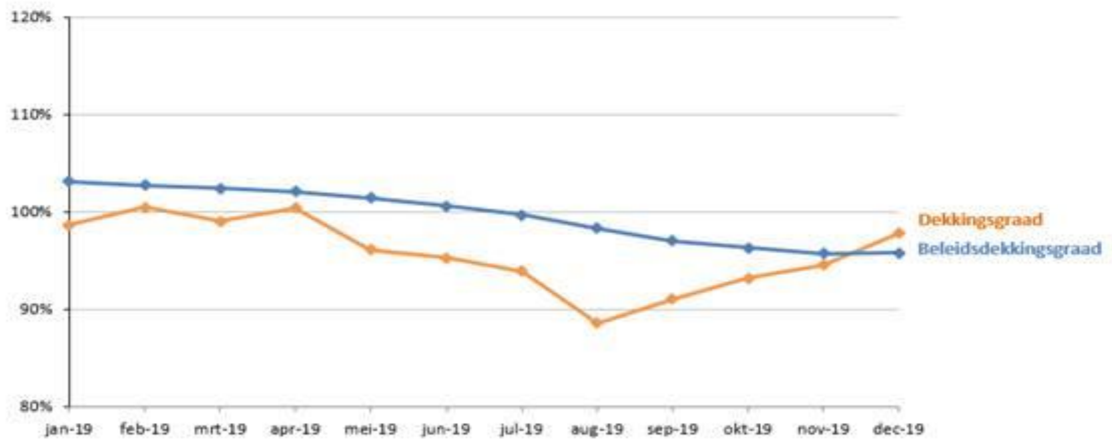
The policy coverage ratio (the average of the coverage ratios over the past twelve months) fell from 103.8% to 95.8% during the course of 2019, a level that is 8.4% lower than the required minimum. A policy coverage ratio lower than the required level of 104.2% through to the end of 2020 in combination with a current coverage ratio lower than 104.2% at the end of 2020 will make pension reductions 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 (€466 billion) and the liabilities of ABP, which are all the current and future pension payments (€476 billion).

<u>How did ABP’s investments and liabilities fare in 2019?</u>
ABP's available assets grew in all quarters, from €399 billion at the end of 2018 to €466 billion at the end of 2019. ABP reported a positive return of 16.8% over the whole of 2019, with particularly favorable results in the equities, alternative investments and real estate categories. The return was 1.5% in the fourth quarter. 2019 was a good investment year. The financial sector – and, consequently, also ABP – expect lower returns of a forecast average of around 4% in the coming years. This is due to the expected persistently low interest rate that will put pressure on the expected return on fixed-income securities (bonds). The high equity prices and worldwide historically high operating profits will also play a role.
The actuarial interest rate fell by 0.7%-point in 2019. This caused the value of the pensions which ABP has to pay out, now and in the future, to rise substantially from €411 billion at the end of 2018 to €476 billion at the end of December 2019. 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.

<u>Investment outlook</u>
Inflation is increasing slightly in Europe. Favorable reports on global trade also contributed to the sharp recovery of equity market prices. The likelihood of further ECB monetary easing measures, which would apply downward pressure on interest rates, has fallen slightly. No further major increases in equity market prices are expected.

Key figures	**Q4 2018**	**Q1 2019**	**Q2 2019**	**Q3 2019**	**Q4 2019**
Policy coverage ratio (%)	103.8	102.4	100.6	97.0	95.8
Coverage ratio (%)	97.1	99.0	95.3	91.0	97.8
Available assets (€ billion)	399	431	442	459	466
Liabilities (€ billions)	411	436	464	504	476
Actuarial interest rate (%)	1.4	1.1	0.8	0.4	0.7

Movements in month-end coverage ratios



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ABP investment portfolio composition:

	Weight	Q4 2019 Return		2019 Return		2018 Return	
	in %	in %	in € billion	in %	in € billion	in %	in € billion
Fixed-income securities	**39.0**	**-2.4**	**-4.4**	**8.7**	**14.0**	**0.4**	**0.6**
Government bonds	10.3	-2.7	-1.1	5.6	1.7	0.0	0.0
Long-term government bonds	7.3	-6.0	-2.2	11.7	3.5	1.3	0.4
Corporate bonds	13.4	-1.3	-0.8	9.4	5.3	2.0	1.1
Emerging market bonds	3.9	0.7	0.1	15.1	2.0	-1.8	-0.2
Inflation-linked bonds	4.1	-1.8	-0.4	4.7	1.6	-2.1	-0.7
Equity	**32.5**	**6.0**	**9.4**	**27.4**	**35.9**	**-5.9**	**-8.1**
Equities, developed countries	25.2	5.1	6.2	28.2	27.7	-4.0	-3.8
Equities, emerging markets	7.4	8.9	3.2	25.3	8.2	-11.9	-4.3
Alternative investments	**18.2**	**3.2**	**2.5**	**14.6**	**10.1**	**6.8**	**4.6**
Private equity	5.6	5.8	1.4	22.3	4.7	15.4	2.9
Commodities *	4.8	4.6	0.9	16.5	2.6	-8.0	-1.2
Opportunity Fund	0.2	-12.0	-0.1	-18.7	-0.2	5.5	0.1
Infrastructure	3.2	3.6	0.5	13.3	1.6	12.4	1.3
Hedge funds **	4.4	-0.8	-0.2	7.1	1.4	8.5	1.5
Real estate	**10.1**	**2.0**	**0.9**	**18.4**	**7.4**	**3.3**	**1.3**
Real estate	10.1	2.0	0.9	18.4	7.4	3.3	1.3
Portfolio return (before overlay)	**99.9**	**1.8**	**8.5**	**16.9**	**67.4**	**-0.4**	**-1.6**
Overlay * **	**0.1**	**-0.4**	**-1.6**	**-0.1**	**-0.4**	**-1.9**	**-7.6**
Interest and inflation hedge ***		-0.7	-3.2	1.7	6.8	0.4	1.6
Currency hedge ***		0.5	2.2	-1.4	-5.7	-2.3	-9.5
Cash and other ***		-0.1	-0.6	-0.4	-1.6	0.1	0.2
Total	**100.0**	**1.5**	**6.9**	**16.8**	**66.9**	**-2.3**	**-9.3**

* Commodities have 100% USD exposure; expressed in USD the return over Q4 was 7.7%; YTD return was 14.4%

* Hedge funds have 100% USD exposure; expressed in USD the return over Q4 was 2.1%; YTD return was 5.2%

*** Contribution to total return on investment