

Press Release Q3 2020

ABP: Pension Cuts Likely in 2021

Highlights:

- Coverage Ratio of 88.2% at End of September
- Return Q3: +€12.8 Billion (+2.8%)
- Pension Liabilities Down Slightly in Q3
- YTD 2020: Return -€1.6 Billion (-0.3%), Liabilities +€49 Billion

Heerlen/Amsterdam, October 20, 2020. As in the second quarter, ABP's financial position improved in the third quarter. However, this has not fully compensated for the poor first quarter as a result of the coronavirus pandemic. There was a positive return on investments this quarter. ABP took into account (on a one-off basis) the fact that the participants are not living as long as expected. As a result, the total liabilities decreased slightly in this quarter. Despite the rise in the coverage ratio in the third quarter, ABP's coverage ratio of 88.2% at the end of September means the Fund is still in the danger zone. At this level, the Fund should cut pensions next year.

Chairman, Corien Wortmann-Kool: "Our economy is being hit hard by the coronavirus pandemic. However, despite the challenging financial markets, our investors have been able to achieve a positive return for the second quarter in a row. As a result, our financial position has not yet returned to its pre-COVID level. If the economy's struggling, we'll see the effects of that on pensions. So, as things stand, there is a real chance of pension cuts next year. Currently, for an average ABP pension of €700 net, this would be around €15 net per month. Our website has a tool that everyone can use to see how cuts to pensions could affect their specific personal situation. Whether we really need to cut pensions depends on how the economy and interest rates develop over the coming months. The coverage ratio at the end of December will determine whether pensions will remain unchanged next year."

What will happen to the pensions in 2021?

ABP believes that, as things stand, there is a realistic probability of pension cuts next year. The Fund's coverage ratio on December 31 of this year will determine whether pensions must be cut next year. Mr. Koolmees, the Minister of Social Affairs and Employment, offers pension funds the option of making use of a more lenient minimum for pension cuts. He has lowered the 104% minimum to 90%, so that any cuts that are made will be smaller. ABP is now 1.8% below the minimum of 90%.

ABP's coverage ratios

At the end of the first quarter, the current coverage ratio had fallen by 15.8% to 82.0% as a result of the coronavirus crisis. At the end of the third quarter, ABP was in better shape with a coverage ratio of 88.2%. This is below the required level of 90%.

The policy coverage ratio – the average of the current coverage ratios over the previous twelve months – fell in this quarter from 89.7% to 88.7%.

The coverage ratio of a pension fund provides an indication of whether it will be able to pay out all current and future pensions. It expresses the ratio between ABP's available assets (€463 billion) and liabilities, which are all the current and future pension payments (€525 billion).

How did ABP's investments and liabilities perform in the third quarter of 2020?

ABP posted a positive return of +2.8% (€12.8 billion) in the third quarter, compared with +7.4% in the previous quarter. These two quarters do not fully compensate for the loss of the first quarter.

The return over the first three quarters was -0.3%, or -€1.6 billion.

ABP's available assets grew in the third quarter from €451 billion at the end of June to €463 billion at the end of September. Virtually all asset classes other than real estate posted positive results.

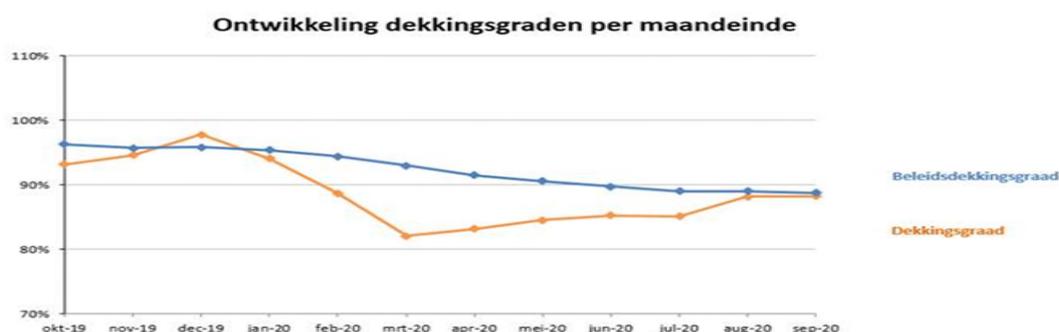
The fall in the actuarial interest rate in the first two quarters was followed by a further fall of 0.1% in the third quarter. The lower interest rate has a major impact on the coverage ratio. From the end of December 2019 to the end of September 2020, the fall in interest rates was 0.5%, with an effect on the coverage ratio of approximately -6%.

Despite the lower interest rate, the value of the pensions that ABP has to pay out now and in the future decreased slightly by €4 billion: from €529 billion at the end of March to €525 billion at the end of September 2020. This had to do with the (one-off) processing of the new tables for the life expectancy of the Actuarial Association (AG).

Investment outlook

The economic consequences of the COVID-19 outbreak continue to play an important role in the financial markets. Governments and central banks are clearly going to huge lengths to prevent permanent economic damage. So far, markets have derived confidence from this, which has translated into an improvement in the Fund's financial position. Continued recovery depends on how the economy adapts to living with the virus and how policy-makers respond. Too much of a focus on monetary support measures may have a negative effect on the Fund's financial position.

Kerncijfers	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Beleidsdekkingsgraad (%)	97,0	95,8	93,0	89,7	88,7
Dekkingsgraad (%)	91,0	97,8	82,0	85,2	88,2
Beschikbaar vermogen (€ mld.)*	459	466	420	451	463
Verplichtingen (€ miljard)	504,0	476	512	529	525
Rekenrente (%)	0,4	0,7	0,4	0,3	0,2



1. De beleidsdekkingsgraad is gebaseerd op een 12 maands gemiddelde van de aan DNB gerapporteerde maands dekkingsgraden.

2. De week- en maands dekkingsgraden zijn gebaseerd op voorlopige cijfers van de beleggingen en de VPIV. Elk kwartaal ultimo 's zijn de cijfers gebaseerd op definitieve cijfers.

ABP investment portfolio composition:

	Weight in %	Q3 2020		YTD 2020		2019	
		Return		Return		Return	
		in %	in € billion	in %	in € billion	in %	in € billion
Fixed-income securities	39.5	0.1	0.2	2.9	5.0	8.7	14.0
Government bonds	9.6	0.6	0.3	4.0	1.7	5.6	1.7
Long-term government bonds	10.1	1.2	0.6	11.2	4.0	11.7	3.5
Corporate bonds	13.9	-0.3	-0.2	1.0	0.6	9.4	5.3
Emerging market bonds	4.3	-2.8	-0.5	-8.1	-1.6	15.1	2.0
Inflation-linked bonds	1.6	0.7	0.1	1.5	0.2	4.7	1.6
Equities	32.8	4.6	6.8	-1.6	-2.8	27.4	35.9
Equities, developed countries	25.7	4.0	4.7	-0.8	-1.2	28.2	27.7
Equities, emerging markets	7.1	6.4	2.2	-4.3	-1.6	25.3	8.2
Alternative investments	18.6	1.9	1.6	-8.9	-7.4	14.6	10.1
Private equity	5.6	8.1	2.0	-0.6	-0.2	22.3	4.7
Commodities *	5.1	0.4	0.1	-26.8	-5.0	16.5	2.6
Opportunity Fund	0.1	-2.3	0.0	-17.9	-0.1	-18.7	-0.2
Infrastructure	3.4	-0.1	0.0	-5.1	-0.8	13.3	1.6
Hedge funds **	4.3	-2.1	-0.4	-5.6	-1.2	7.1	1.4
Real estate	8.9	-1.3	-0.5	-14.0	-6.7	18.4	7.4
Real estate	8.9	-1.3	-0.5	-14.0	-6.7	18.4	7.4
Portfolio return (before overlay)	99.8	1.8	8.1	-2.5	-11.9	16.9	67.4
Overlay ***	0.2	1.0	4.7	2.2	10.3	-0.1	-0.4
Interest and inflation hedge ***		0.1	0.3	1.0	4.9	1.7	6.8
Currency hedge ***		1.0	4.4	0.8	3.6	-1.4	-5.7
Cash and other ***		0.0	0.0	0.4	1.8	-0.4	-1.6
Totally	100.0	2.8	12.8	-0.3	-1.6	16.8	66.9

* Commodities have 100% USD exposure; expressed in USD, the return over Q3 was 4.9%

** Hedge funds have 100% USD exposure; expressed in USD, the return over Q3 was 2.2%

*** Contribution to total return on investment

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 three million participants and 463 billion euros in available assets (as at September 30, 2020).