

## Press Release Q2, 2020

### ABP 'Realistic probability of a pension cut in 2021'

#### Highlights:

- Coverage ratio of 85.2% at end of June
- Return in Q2 +€31 billion, return in first half year -€14.4 billion
- Pension liabilities increase in first half year by €53 billion due to lower interest

Heerlen/Amsterdam, April 21, 2020. **Following the poor first quarter due to the COVID-19 pandemic, ABP's financial position improved in the second quarter. This was largely the result of the good return on investments. However, the lower interest put the brake on an increase in coverage ratio. ABP, with its coverage ratio of 85.2% at the end of June, remains in the danger zone and, as things stand, pensions would need to be cut next year.**

**Chairman, Corien Wortmann-Kool:** "We have seen that the negative impact of the COVID-19 crisis in the first quarter has in part been compensated in the second quarter. However, ABP has been hit hard by the fall in interest in the past half year, which has increased pension liabilities by more than €50 billion. This means that, as things stand, there is a realistic probability of a pension cut next year, even following the amendment of the rules recently announced by Mr. Koolmees, the Minister of Social Affairs and Employment. Whether this actually will be the case depends on developments in the economy, in particular in interest, in the coming six months. The coverage ratio at the end of December will determine whether pensions will remain unchanged or will be cut."

#### 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. This is set at a current coverage ratio of 90% as at December 31. Without this leniency, the minimum is 100% or 104.2%. This makes a great difference, as the more lenient minimum reduces the probability of a cut and the size of the cut. ABP is now 4.8% below the minimum of 90%.

#### ABP's coverage ratios

Following the 15.8% fall in ABP's current coverage ratio during the first quarter to 82.0% at the end of March, the ratio recovered to 85.2% at the end of the second quarter.

The policy coverage ratio – the average of the current coverage ratios over the previous twelve months – fell in this quarter from 93.0% to 89.7%.

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 (€451 billion) and liabilities, which are all the current and future pension payments (€529 billion).

### What did ABP's investments and liabilities do in the second quarter of 2020?

On balance, ABP recorded a positive return of 7.4% in the second quarter, equivalent to €31.0 billion. In total, the return in the first half year was -3.1%, equivalent to -€14.4 billion. ABP's available assets grew in the second quarter from €420 billion at the end of March to €451 billion at the end of June 2020. Virtually all asset classes other than alternative investments were in the black. The equity portfolio, in particular, achieved good results.

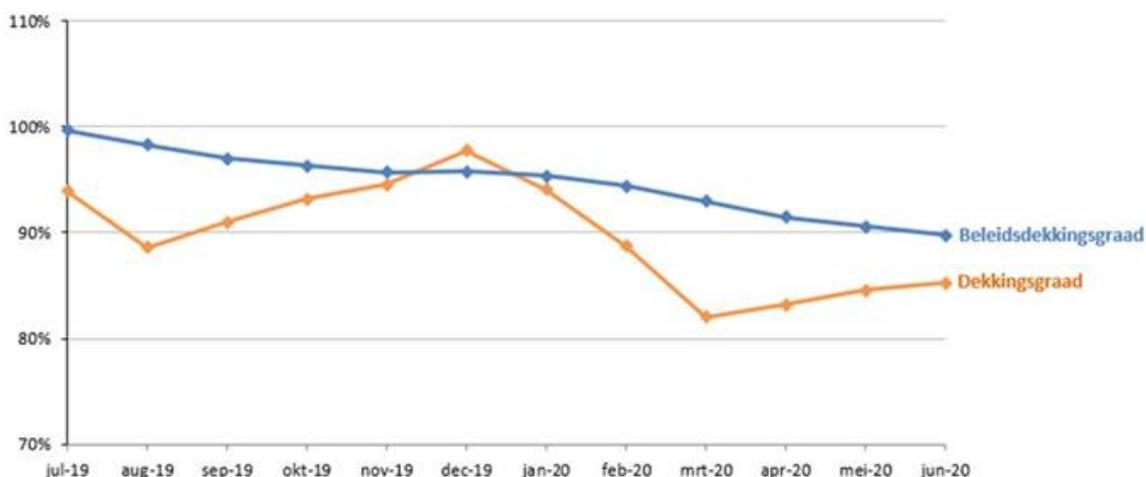
The fall in the actuarial interest rate in the first quarter was followed by a further fall of 0.1 percentage points in the second quarter. As a result, the value of the pensions that ABP has to pay out, now and in the future, rose by €17 billion from €512 billion at the end of March to €529 billion at the end of June 2020. Pension liabilities increased by €53 billion in the first half of 2020.

### Investment outlook

The economic consequences of the COVID-19 outbreak continue to play an important role in the financial markets. Fiscal and monetary support programs and the partial easing of restrictions on social life have contributed to a slight improvement in the Fund's financial position. Further recovery depends on the extent and manner in which the virus outbreak is controlled and the economy adjusts to the new reality. Monetary support measures can be detrimental to the Fund's financial position.

| Key figures                  | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 |
|------------------------------|---------|---------|---------|---------|---------|
| Policy coverage ratio (%)    | 100.6   | 97.0    | 95.8    | 93.0    | 89.7    |
| Coverage ratio (%)           | 95.3    | 91.0    | 97.8    | 82.0    | 85.2    |
| Available assets (€ billion) | 442     | 459     | 466     | 420     | 451     |
| Liabilities (€ billion)      | 464     | 504     | 476     | 512     | 529     |
| Actuarial interest rate (%)  | 0.8     | 0.4     | 0.7     | 0.4     | 0.3     |

### Ontwikkeling dekkingsgraden per maandeinde



Development of coverage ratios at the end of the month

Policy coverage rate

Coverage ratio

## ABP investment portfolio composition:

|  | Weight<br>in % | Q2 2020        |                           | 2020           |                           | 2019           |                           |
|--|----------------|----------------|---------------------------|----------------|---------------------------|----------------|---------------------------|
|  |                | Return<br>in % | Return<br>in €<br>billion | Return<br>in % | Return<br>in €<br>billion | Return<br>in % | Return<br>in €<br>billion |
| <b>Fixed-income securities</b>           | <b>39.1</b>    | <b>3.2</b>     | <b>5.6</b>                | <b>2.8</b>     | <b>4.8</b>                | <b>8.7</b>     | <b>14.0</b>               |
| Government bonds                         | 9.3            | 0.8            | 0.4                       | 3.4            | 1.4                       | 5.6            | 1.7                       |
| Long-term government bonds               | 9.1            | 2.3            | 0.9                       | 9.9            | 3.5                       | 11.7           | 3.5                       |
| Corporate bonds                          | 14.0           | 4.0            | 2.4                       | 1.4            | 0.8                       | 9.4            | 5.3                       |
| Emerging market bonds                    | 3.9            | 8.3            | 1.4                       | -5.5           | -1.0                      | 15.1           | 2.0                       |
| Inflation-linked bonds                   | 2.8            | 3.7            | 0.5                       | 0.7            | 0.1                       | 4.7            | 1.6                       |
| <b>Equity</b>                            | <b>32.1</b>    | <b>17.8</b>    | <b>22.1</b>               | <b>-5.9</b>    | <b>-9.6</b>               | <b>27.4</b>    | <b>35.9</b>               |
| Equities, developed countries            | 24.9           | 18.0           | 17.1                      | -4.6           | -5.8                      | 28.2           | 27.7                      |
| Equities, emerging markets               | 7.2            | 17.1           | 5.0                       | -10.0          | -3.8                      | 25.3           | 8.2                       |
| <b>Alternative investments</b>           | <b>18.3</b>    | <b>-1.5</b>    | <b>-1.2</b>               | <b>-10.7</b>   | <b>-9.0</b>               | <b>14.6</b>    | <b>10.1</b>               |
| Private equity                           | 5.4            | -8.0           | -2.2                      | -8.1           | -2.2                      | 22.3           | 4.7                       |
| Commodities *                            | 4.7            | 9.3            | 1.7                       | -27.1          | -5.1                      | 16.5           | 2.6                       |
| Opportunity Fund                         | 0.1            | -15.2          | -0.1                      | -16.0          | -0.1                      | -18.7          | -0.2                      |
| Infrastructure                           | 3.3            | -4.0           | -0.6                      | -5.0           | -0.8                      | 13.3           | 1.6                       |
| Hedge funds **                           | 4.7            | 0.0            | 0.0                       | -3.8           | -0.8                      | 7.1            | 1.4                       |
| <b>Real estate</b>                       | <b>9.2</b>     | <b>1.5</b>     | <b>0.6</b>                | <b>-12.9</b>   | <b>-6.1</b>               | <b>18.4</b>    | <b>7.4</b>                |
| Real estate                              | 9.2            | 1.5            | 0.6                       | -12.9          | -6.1                      | 18.4           | 7.4                       |
| <b>Portfolio return (before overlay)</b> | <b>98.7</b>    | <b>6.4</b>     | <b>27.0</b>               | <b>-4.3</b>    | <b>-20.0</b>              | <b>16.9</b>    | <b>67.4</b>               |
| <b>Overlay ***</b>                       | <b>1.3</b>     | <b>1.0</b>     | <b>4.0</b>                | <b>1.2</b>     | <b>5.6</b>                | <b>-0.1</b>    | <b>-0.4</b>               |
| Interest and inflation hedge ***         |                | 0.4            | 1.8                       | 1.0            | 4.5                       | 1.7            | 6.8                       |
| Currency hedge ***                       |                | 0.5            | 2.0                       | -0.2           | -0.8                      | -1.4           | -5.7                      |
| Cash and other ***                       |                | 0.1            | 0.2                       | 0.4            | 1.9                       | -0.4           | -1.6                      |
| <b>Total</b>                             | <b>100.0</b>   | <b>7.4</b>     | <b>31.0</b>               | <b>-3.1</b>    | <b>-14.4</b>              | <b>16.8</b>    | <b>66.9</b>               |

\* Commodities have 100% USD exposure; expressed in USD, the return over Q2 was 11.9%

\*\* Hedge funds have 100% USD exposure; expressed in USD, the return over Q2 was 2.4%

\*\*\* Contribution to total return on investment