

Quarterly Report Q1 2018

Rising trend in coverage ratio comes to a halt in first quarter

Highlights:

- Current coverage ratio fell in third quarter to 103.0%
- Investment return in first quarter: - 1.0% (- €3.9 billion)
- Liabilities rose slightly in the first quarter
- Policy coverage ratio rises to 103.0%

Heerlen/Amsterdam, 19 April 2018. In the first quarter of 2018, the coverage ratio at ABP, which had been rising for quite some time, showed a fall. The current coverage ratio fell during this quarter to 103.0% (-1.4). This quarter saw rising interest rates in the US and the threat of a trade war between the US and China. This led to falling market prices, which had an impact on our return. The policy coverage ratio did increase during this quarter, by 1.5 percentage points to 103.0%. ABP's available assets diminished by €4 billion this quarter to €405 billion, while liabilities rose to €393 billion.

Chairman Corien Wortmann-Kool: "After five successive quarters with rising coverage ratios, a downturn occurred for the first time. Although the economy is growing in the Netherlands and beyond, we are also seeing unrest in the financial markets, while Dutch interest rates remain virtually unchanged. As a result, the ABP coverage ratio showed a slight fall in the first quarter of this year. Expectations for our participants remain unchanged. We do not expect to be able to index pensions much, if at all, in the coming five years. While there is little likelihood of having to lower pensions in the short term, this risk remains present for the medium term."

Outlook: Probability of Reduction/Indexation

The policy coverage ratio continued to show an upward trend in the first quarter of 2018: from 101.5% (year-end 2017) to 103% at the end of March 2018. This coverage ratio (twelve-month moving average of the current coverage ratios) determines whether it is possible to increase (index) pensions. However, ABP participants must keep in mind that at the current level, it will not be possible to increase pensions much, if at all, in the next five years. Partial indexation is permitted when the policy coverage ratio is 110% or higher. Full indexation is permitted when the policy coverage ratio is 123% or higher. The likelihood that ABP will be forced to reduce pensions in 2019 is very small. However, this probability will continue to be present in the following years. If the policy coverage ratio remains below the required level of 104.2% up to the end of 2020 (for a consecutive five-year period), reducing pensions will be unavoidable. Due to the improvement in the coverage ratio (above 100%), transfers of accrued benefits resumed in the fourth quarter of 2017.

Investments and Liabilities Trends

The available assets fell to €405 billion in the first quarter, as a result of a negative return of -1.0% (- €3.9 billion). In the final quarter of 2017, the share portfolio made a significant contribution to a positive return. In the first quarter of this year, this reversed and the portfolio showed a negative result. The real estate portfolio and the alternative investments also contributed to the negative return in the first quarter. Bonds (except for corporate bonds and emerging market bonds), a number of alternative investments and the hedging of currency risks generated positive returns (see attachment). Interest rates remained virtually unchanged. The value of the liabilities (the total of all the pensions ABP must pay out now and in the future) rose slightly, to €393 billion in the first quarter.

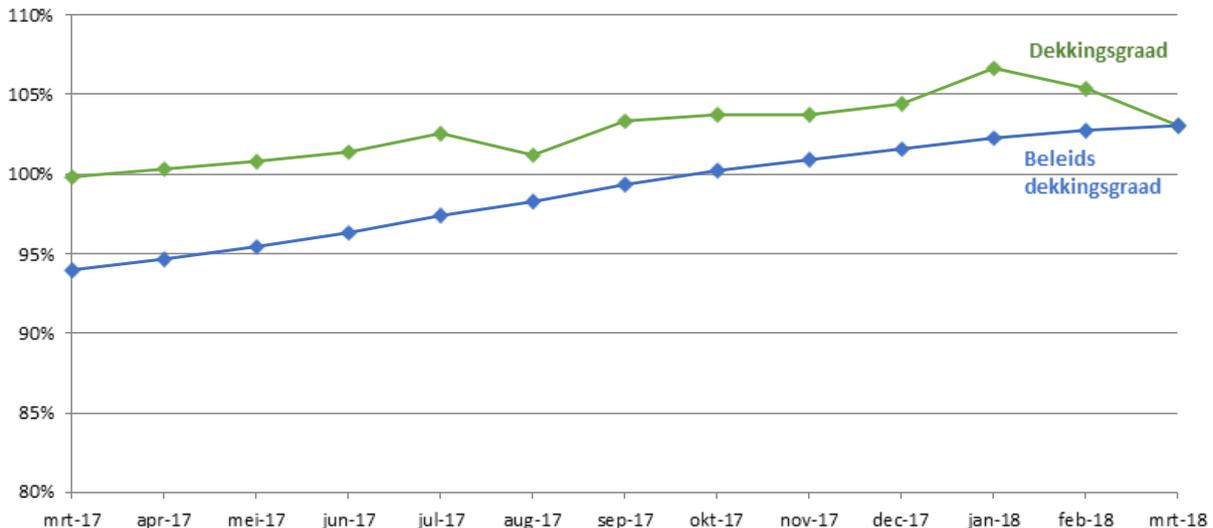
Investments Outlook

The growth of the global economy remains at a high level and corporate profits were also above expectations. In recent years, financial markets have already partly anticipated this positive environment with rising prices. The roll back of central bank stimulation combined with movements in inflation remain the main themes for this year. As long as interest rates and inflation rise modestly, real assets (including equities and real estate) will perform well, as was the case in January. However, if interest rates climb too fast, this will alarm investors, which usually translates into sharp price fluctuations. A potential trade war between the US and China is also placing pressure on current sentiment.

Key Figures	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Policy coverage ratio (%)	94.0	96.3	99.3	101.5	103.0
Coverage ratio (%)	99.8	101.3	103.3	104.4	103.0
Available assets (€ billions)*	389	389	396	409	405
Liabilities (€ billions)	390	383	383	392	393
Actuarial interest rate (%)	1.4	1.5	1.6	1.5	1.5

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

Ontwikkeling dekkingsgraden per maandeinde



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 2.9 million participants and €405 billion in available assets (as at 31 March 2018).

Appendix:
Investment Portfolio Composition and Return

Returns are before currency hedge; some rounding differences may arise.

	Weight in %	Q1 2018		2018		2017	
		Return		Return		Return	
		in %	€ billions	in %	€ billions	in %	€ billions
Fixed-income securities	37.3	-0.5	-0.7	-0.5	-0.7	-0.2	-0.3
Government bonds	5.5	0.5	0.1	0.5	0.1	0.3	0.1
Long-term government bonds	7.3	0.5	0.2	0.5	0.2	1.2	0.4
Corporate bonds	13.4	-1.9	-1.0	-1.9	-1.0	-2.2	-1.2
Emerging market bonds	2.9	-0.7	-0.1	-0.7	-0.1	-1.0	-0.1
Inflation-linked bonds	8.2	0.3	0.1	0.3	0.1	1.5	0.5
Equities	35.8	-2.5	-3.6	-2.5	-3.6	12.3	16.0
Equities, developed countries	26.8	-3.1	-3.3	-3.1	-3.3	8.7	8.7
Equities, emerging markets	9.0	-0.8	-0.3	-0.8	-0.3	23.0	7.4
Alternative investments	16.9	-0.4	-0.3	-0.4	-0.3	0.1	0.1
Private Equity	4.8	-1.0	-0.2	-1.0	-0.2	9.7	1.7
Commodities	4.7	1.3	0.2	1.3	0.2	-4.9	-0.7
Opportunity Fund	0.3	1.7	0.0	1.7	0.0	-12.6	-0.3
Infrastructure	2.8	0.6	0.1	0.6	0.1	8.3	0.8
Hedge funds	4.3	-2.1	-0.4	-2.1	-0.4	-7.5	-1.5
Real estate	9.5	-3.0	-1.2	-3.0	-1.2	3.4	1.3
Real estate	9.5	-3.0	-1.2	-3.0	-1.2	3.4	1.3
Portfolio return (before overlay)	99.5	-1.4	-5.7	-1.4	-5.7	4.5	17.1
Overlay *	0.5	0.5	1.8	0.5	1.8	3.1	11.6
Interest rate and inflation hedge*		0.0	0.1	0.0	0.1	-0.4	-1.4
Currency hedge*		0.5	2.0	0.5	2.0	3.4	12.9
Cash and other*		0.0	-0.2	0.0	-0.2	0.0	0.1
Total	100.0	-1.0	-3.9	-1.0	-3.9	7.6	28.7

* contribution to total return