

Annual Report 2017

ABP's financial position has improved; pension prospects remain unchanged

Highlights:

- Current coverage ratio rose from 96.7% to 104.4% in 2017
- Policy coverage ratio rose by almost 10 percentage points to 101.5% last year
- Investment return in 2017: 7.6% (+€28.7 billion)
- Liabilities continued to be high due to low interest rates

Heerlen/Amsterdam, January 25, 2018. **The fund's financial situation improved in 2017 and coverage ratios rose. The level attained is not sufficient to increase member pension benefits. The coverage ratios primarily rose due to the 7.6% return on investments. In 2017, assets increased by €27 billion, and at year-end amounted to €409 billion. 2017 also was a year in which social partners, supported by funds such as ABP, worked hard on a new pension system, as yet without any concrete results.**

Chairman Corien Wortmann-Kool: "The Dutch economy is improving; many people are a little better off. Unfortunately this does not apply to our participants: pension prospects stayed unchanged. ABP had a good investments year and assets grew by €27 billion. However, due to persistently low interest rates, liabilities stayed very high. In all likelihood we will not be able to increase pensions much, if at all, in the coming five years. This is because under the current system, we must build up a €100 billion buffer before we can even begin to think about full indexation. Over the short term, i.e., 2018 and 2019, the likelihood of having to lower pensions is slight. However, over the medium term there continues to be a possibility that pensions will have to be lowered. Although ABP's financial position has improved, modernization of the pension system continues to be important. Because the labor market has changed, participants have different needs and the current system is too dependent on interest rates. I sincerely hope that the political establishment and social partners will provide clarity about a renewed system over the coming months."

Movement in 2017 financial position

ABP's financial position improved in 2017. Coverage ratios displayed a rising trend in all quarters. The current coverage ratio rose by 7.7 percentage points to 104.4% during the year. The policy coverage ratio rose by almost 10 percentage points to 101.5%. The coverage ratio reflects the relationship between the available assets and the value of the liabilities (the total of all pension benefits ABP must pay out, now and in the future).

The improvement in ABP's financial position is primarily due to the 7.6% return on investment (+€28.7 billion). The 3.6% return in the fourth quarter (€14.1 billion) made a significant contribution to this. Viewed over the year as a whole, the equity portfolio and the real estate portfolio in particular contributed to the return. A number of asset classes earned negative returns in 2017. The euro's strong position relative to other currencies, such as the dollar, played a key role in this respect. The downside protection against currency risk also made a contribution. (See Annex).

The available assets increased to €409 billion in 2017.

The value of the liabilities declined somewhat by €3 billion in 2017. However, relatively speaking, liabilities were high in 2017 due to the persistently low interest rates.

Outlook: Probability of pension reduction/indexation

The policy coverage ratio was 101.5% at the end of December 2017. This coverage ratio (twelve-month moving average of the current coverage ratios) determines whether it is possible to increase (index) pensions. 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 128% or higher. On the other hand, the probability that ABP will be forced to reduce pensions in 2018 and 2019 has become very small. However, this probability will continue to be present in the following years. If the policy coverage ratio remains under the required level of 104.2% up until the end of 2020 (for a consecutive five-year period), ABP will have to reduce pensions. Due to the improvement in the coverage ratio (above 100%), value transfers were resumed in the fourth quarter.

Investments outlook

There is evidence of economic growth in all regions of the world. Looking at consumer and producer confidence, and the willingness to invest, the expectation is that growth will stay at a high level. For investors this upturn means that for the time being there will be less concern about structural risks, such as debt levels of the developed economies, credit growth in China, or European integration. The expectation is that in 2018, the policies of central banks combined with inflation expectations will be the most important themes. An unexpected increase in inflation could mean that central banks will normalize their monetary policy more quickly.

Modernization of pension system desirable: care needed

In ABP's view a change to the current pension system is required to guarantee a good and robust pension for current and future participants. The labor market has changed, and the needs and personal situations of participants are changing. The current system is complex and provides too little support for the changes among our participants. The system lacks a clear relationship between pension premiums, returns, and benefits. ABP has consistently advocated a personal pension with protection: greater insight, more custom options and choices, but also with sufficient room for effective collective risk sharing and fiscal options. The transition to a new environment must be effected with due care. The fund consequently assisted social partners in their thinking process and making the necessary calculations.

Key Figures	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Policy coverage ratio (%)	91.7	94.0	96.3	99.3	101.5
Coverage ratio (%)	96.7	99.8	101.3	103.3	104.4
Available assets (€ billions)*	382	389	389	396	409
Liabilities (€ billions)	395	390	383	383	392
Actuarial interest rate (%)	1.3	1.4	1.5	1.6	1.5

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

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 €409 billion in available assets (as at December 31, 2017).

Annex :

Investment portfolio composition and returns

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

	Weight %	Q3 2017		2017		2016	
		Return in %	Return in billion €	Return in %	Return in billion €	Return in %	Return in billion €
Fixed Income	36.8	0.8	1.1	-0.2	-0.3	5.5	8.0
Treasuries	5.4	0.4	0.1	0.3	0.1	2.6	1.3
Treasuries Long Duration	7.0	1.8	0.5	1.2	0.4	7.9	0.5
Credits	13.4	0.1	0.1	-2.2	-1.2	6.6	3.2
Emerging Market Debt	2.8	-0.8	-0.1	-1.0	-0.1	14.9	1.3
Inflation Linked Debt	8.2	1.8	0.6	1.5	0.5	5.1	1.6
Equity	35.3	4.4	6.3	12.3	16.0	12.1	14.2
Equity Developed	26.5	3.9	4.1	8.7	8.7	10.9	9.8
Equity Emerging	8.7	6.0	2.2	23.0	7.4	15.1	4.5
Alternative investments	16.5	4.4	2.9	0.1	0.1	12.5	7.4
Private Equity	4.7	6.9	1.3	9.7	1.7	14.8	2.5
Commodities	4.4	7.5	1.3	-4.9	-0.7	16.8	2.4
Opportunity Fund	0.4	1.9	0.0	-12.6	-0.3	5.0	0.1
Infrastructure	2.7	3.2	0.3	8.3	0.8	13.0	1.0
Hedge Funds	4.4	-0.2	0.0	-7.5	-1.5	7.9	1.4
Real Estate	9.8	3.4	1.3	3.4	1.3	8.4	3.0
Real Estate	9.8	3.4	1.3	3.4	1.3	8.4	3.0
Portfolio return (before overlay)	98.3	3.0	11.6	4.5	17.1	9.4	32.7
Overlay *	1.7	0.6	2.5	3.1	11.6	0.1	0.3
Interest- and inflationhedge *		0.3	1.0	-0.4	-1.4	1.3	4.4
Currency hedge *		0.4	1.4	3.4	12.9	-1.3	-4.7
Other *		0.0	0.1	0.0	0.1	0.2	0.6
Total	100.0	3.6	14.1	7.6	28.7	9.5	33.0

* contribution to total portfolio