

## Annual Report 2018

### 2018: A Year of Ups and Downs for ABP

- **Badly performing stock exchanges in the fourth quarter reversed the upward trend**
- **The lack of a Pension Agreement was disappointing**

Heerlen/Amsterdam, January 24, 2019. **2018 was a year of ups and downs for ABP. In the first three quarters, the coverage ratios displayed an upward trend, but this was reversed in the final quarter of the year. Primarily, this was due to uncertainty in the financial markets, which experienced heavy share price losses globally. ABP's current coverage ratio fell compared with the end of 2017 (from 104.4% to 97.0%). However, the policy coverage ratio, important for pension increases or reductions, rose from 101.5% to 103.8% in 2018. The participants' pensions will remain the same in 2019. As far as the coming years are concerned, the chance that the pensions may be reduced cannot be ruled out, and the Fund is still far from being able to increase the pensions.**

#### What can ABP's participants expect?

Pensions will remain the same in 2019. With regard to 2020, there is only a slight chance of pensions being reduced. However, the chance of pensions being reduced in the years after that cannot be ruled out, nor do

**Chairman Corien Wortmann-Kool:** "The year 2018 ended disappointingly in several respects. In the first three quarters of 2018, our financial position gradually improved. However, in the fourth quarter the stock exchanges plummeted, spoiling things for the investors and, consequently, for ABP too. As a result, we narrowly failed to come out on the right side of the line: If the policy coverage ratio had been 0.4% higher, a potential reduction in 2021 would have been avoided. Now we have no choice but to keep telling our participants that there is a chance that pensions may need to be reduced in the coming years, and that there is little chance of a pension increase. For this reason, it was also disappointing that no Pension Agreement was concluded in 2018. A new pension system is sorely needed - a system that fits in with the increased flexibility in the labor market and the need to offer a range of options; one that gives participants a view of their expected pensions instead of making them promises for the distant future. In the interests of our participants, I hope that this issue is resolved in 2019."

we expect to be able to increase the pensions in line with price rises (indexation) in 2020 or subsequent years.

#### APB's coverage ratios: level and significance

In the first three quarters, the current coverage ratio had risen from 104.4% to 105.9% by the end of September 2018. However, turbulent stock exchanges and falling interest rates caused it to fall to 97% by the end of the year.

The policy coverage ratio (the average of the current coverage ratio over the previous twelve months) rose in the first three quarters from 101.5% to 104.7% by the end of September 2018. By the end of the year, the policy coverage ratio had fallen to 103.8% and consequently ended 0.4% below the required minimum. On the one hand, this coverage ratio determines whether or not the pensions can be increased. Partial indexation is possible given a policy coverage ratio of 110% or higher. From 123% upwards, ABP can apply complete indexation but, given the current 103.8%, this is a long way off. On the other hand, the policy coverage ratio can play a role in the reduction of pensions. If the policy coverage ratio remains below the required level of 104.2% until the end of 2020 and the current coverage ratio at the end of 2020 is also lower than 104.2%, lowering the pensions will be 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 relationship between ABP's available capital (€399 billion) and ABP's liabilities, i.e. all the current and future pension payments (€411 billion).

#### How did ABP's investments and liabilities fare in 2018?

In the first three quarters of 2018, ABP's available assets grew from €409 billion to €419 billion. In the fourth quarter, they fell back to €399 billion. Over the whole of 2018, ABP reported a negative return of -2.3%. In the fourth quarter, the return was -4.6%. This was primarily due to the category: Equity. In the fourth quarter, the turbulence in the financial markets had a particularly negative impact on ABP's available assets. Among other things, this turbulence was due to the trade war between the United States and China, concern about Brexit, and the expectations of economic growth.

Over the past five years, the Fund has had an average return of just over 6%. However, in the coming 10 to 15 years ABP will, in the same way as other large investors, take account of a lower return, a return which is more likely to be around 5%.

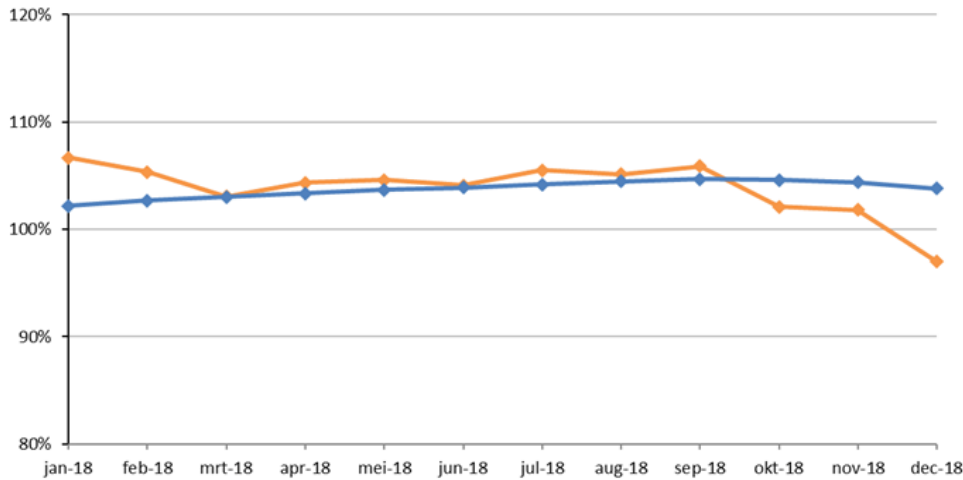
The actuarial interest rate fell by 0.1%-point in the fourth quarter. This caused the value of the pensions which ABP has to pay out, now and in the future, to rise substantially from €396 billion to €411 billion by the end of 2018. This rise also had a negative impact on the coverage ratio. If the interest rate falls, funds have to keep more of their assets in a liquid form to meet all their liabilities.

#### Investment outlook

The outlook for the global economy is moderately positive. There is still talk of growing profits and lower interest rates. However, due to the continued tension between large global trade players, the conflict surrounding the American budget, and the concerns attached to Brexit, business confidence is declining throughout the world. The financial markets are anticipating slower growth and less certainty. Consequently, we must take account of lower returns.

<b>Key Figures</b>	<b>Q4 2017</b>	<b>Q1 2018</b>	<b>Q2 2018</b>	<b>Q3 2018</b>	<b>Q4 2018</b>
Policy coverage ratio (%)	101.5	103.0	103.9	104.7	103.8
Coverage ratio (%)	104.4	103.0	104.1	105.9	97.0
Available assets (€ billions.)*	409	405	414	419	399
Liabilities (€ billions)	392	393	398	396	411
Actuarial interest rate (%)	1.5	1.5	1.4	1.5	1.4

### Ontwikkeling dekkingsgraden per maandeinde



### Trend of the coverage ratios at the end of each month

Policy coverage ratio

Coverage ratio

80% 90% 100% 110% 120%

Jan-18 Feb-18 Mar-18 Apr-18 May-18 Jun-18 Jul-18 Aug-18 Sep18 Oct-18 Nov-18 Dec-18

### ABP investment portfolio composition:

Q4-2018	Weight %	Q4 2018		2018		2017	
		Return in %	Return in billion €	Return in %	Return in billion €	Return in %	Return in billion €
<b>Fixed Income</b>	<b>40.2</b>	<b>0.9</b>	<b>1.5</b>	<b>0.4</b>	<b>0.6</b>	<b>-0.2</b>	<b>-0.3</b>
Treasuries	7.2	1.4	0.4	0.1	0.0	0.3	0.1
Treasuries Long Duration	7.4	2.1	0.6	1.3	0.4	1.2	0.4
Credits	14.1	0.7	0.4	2.0	1.1	-2.2	-1.2
Emerging Market Debt	3.2	2.7	0.3	-1.8	-0.2	-1.0	-0.1
Inflation Linked Debt	8.3	-0.7	-0.2	-2.0	-0.7	1.5	0.5
<b>Equity</b>	<b>33.3</b>	<b>-10.9</b>	<b>-16.3</b>	<b>-5.9</b>	<b>-8.1</b>	<b>12.3</b>	<b>16.0</b>
Equity Developed	24.7	-12.3	-14.1	-4.0	-3.8	8.7	8.7
Equity Emerging	8.6	-6.3	-2.2	-11.9	-4.3	23.0	7.4
<b>Alternative investments</b>	<b>17.1</b>	<b>-3.8</b>	<b>-2.7</b>	<b>6.8</b>	<b>4.6</b>	<b>0.1</b>	<b>0.1</b>
Private Equity	5.2	1.5	0.3	15.4	2.9	9.7	1.7
Commodities	3.9	-19.9	-3.8	-8.0	-1.2	-4.9	-0.7
Opportunity Fund	0.3	-4.1	-0.1	5.5	0.1	-12.6	-0.3
Infrastructure	2.8	4.5	0.5	12.4	1.3	8.3	0.8
Hedge Funds	4.9	2.0	0.4	8.5	1.5	-7.5	-1.5
<b>Real Estate</b>	<b>10.1</b>	<b>-1.0</b>	<b>-0.4</b>	<b>3.3</b>	<b>1.3</b>	<b>3.4</b>	<b>1.3</b>
Real Estate	10.1	-1.0	-0.4	3.3	1.3	3.4	1.3
<b>Portfolio return (before overlay)</b>	<b>100.7</b>	<b>-4.3</b>	<b>-17.9</b>	<b>-0.4</b>	<b>-1.6</b>	<b>4.5</b>	<b>17.1</b>

<b>Overlay *</b>	<b>-0.7</b>	<b>-0.3</b>	<b>-1.3</b>	<b>-1.9</b>	<b>-7.6</b>	<b>3.1</b>	<b>11.6</b>
Interest and inflation hedge *		0.3	1.4	0.4	1.6	-0.4	-1.4
Currency hedge *		-0.8	-3.3	-2.3	-9.5	3.4	12.9
Cash and other *		0.1	0.5	0.1	0.2	0.0	0.1
<b>Total</b>	<b>100.0</b>	<b>-4.6</b>	<b>-19.2</b>	<b>-2.3</b>	<b>-9.3</b>	<b>7.6</b>	<b>28.7</b>

\* contribution to total portfolio

### 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 €399 billion in available assets (as at 31 December 2018).