

Quarterly Report Q1 2017

ABP's coverage ratio continues to rise

Highlights:

- **Current coverage ratio rises by 3.1 percentage points to 99.8% in first quarter**
- **Positive investment return for first quarter: 2% (+€7.5 billion)**
- **Liabilities decline in first quarter due to rising interest rates (-€5 billion)**
- **Policy coverage ratio rises by 2.3 percentage points to 94%**

Heerlen/Amsterdam, April 20, 2017. **ABP's financial position improved in the first quarter of 2017. The current coverage ratio rose by 3.1 percentage points to 99.8%. The improved financial position is attributable to a positive investment return and slight rise in the interest rate. The increase in the interest rate reduced the liabilities by €5 billion. In addition to this, ABP earned €7.5 billion for its participants on investments. At the end of March, ABP had capital amounting to €389 billion.**

Chairman Corien Wortmann-Kool: 'Just as occurred in the previous quarter, the current coverage ratio rose in the first quarter of this year. This is now almost 100%, which means that ABP's assets and liabilities are in balance. This does not mean we are at the level where we should be, however. The policy coverage ratio, important for increasing pensions, is also showing an upward trend, for the first time in a long time. Despite the slight increase, the current level of 94% is still a far cry from the 110% needed to be able to increase pensions. Indexation is still a long way off.'

Outlook: Probability of Reduction/Indexation

The policy coverage ratio was 94% at the end of March 2017. This coverage ratio (the twelve-month average of the current coverage ratios) determines whether it is possible to increase (index) the pensions. The policy coverage ratio showed an upward trend in the first quarter of 2017: from 91.7% (end of December 2016) to 94% at the end of March 2017. ABP may gradually increase the pensions once the policy coverage ratio is 110%. With the current level, ABP does not expect to be able to index pensions much, if at all, in the next five years.

There is still a distinct possibility that ABP will be forced to reduce pensions in 2018. This would be obligatory if the current coverage ratio were below the critical level ($\pm 88\%$) at the end of 2017 or if the policy coverage ratio were to remain below the required level of 104.2% until the end of the year 2020.

The transfer of accrued benefits can only occur if the policy coverage ratio is at least 100% or higher.

Investments and Liabilities Trends

The available assets rose to €389 billion in the first quarter. The return in the first quarter was 2% (€7.5 billion).

The equities portfolio and some alternative investments (such as real estate and infrastructure) showed a positive return in the first quarter. The fixed-income securities and the interest rate and currency hedging categories posted a slightly negative return (see appendix).

The value of the liabilities (the total of all the pensions ABP must pay out now and in the future) decreased by €5 billion to €390 billion in the first quarter. The increase in the actuarial interest rate by a rounded-off 0.1 percentage point was the key reason for the decrease in liabilities.

Investments Outlook

Political developments continue to be extremely important for the financial markets. The French elections are causing unrest on the bond market because of the potential consequences for the monetary union. US equity prices have risen in anticipation of tax cuts, the introduction of which is now surrounded by much uncertainty.

Even if the political risks decline, this is no guarantee of smoother sailing for the markets. As the recovery of the global economy gathers strength, the markets are increasingly getting in lane for further normalization of policy of the central banks in the US and Europe. Because the low risk-free rate and bond-buying programs (QE) have propped up both the equities markets and the government and corporate bond markets, reversing this policy could impact these markets negatively, especially if it occurs more quickly than expected.

Key figures	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Policy coverage ratio (%)	96.8	94.4	92.5	91.7	94.0
Coverage ratio (%)	90.4	90.6	90.7	96.7	99.8
Available assets (€ billion) *	359	372	381	382	389
Liabilities (€ billion)	397	411	420	395	390
Actuarial interest rate (%)	1.2	1.0	0.9	1.3	1.4

*the key factors that cause changes in the available assets are the investment return achieved, contributions received and benefits paid

For more information:

ABP Communication
communicatie@abp.nl
abp.nl

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 €389 billion in available assets (as at March 31, 2017).

Appendix:

Investment Portfolio Composition and Return

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

	Weight in %	Q1 2017		2017		2016	
		Return		Return		Return	
		in %	in billion €	in %	in billion €	in %	in billion €
Fixed-income securities	38.3	-0.3	-0.4	-0.3	-0.4	5.5	8.0
Government bonds	8.0	-0.9	-0.3	-0.9	-0.3	2.6	1.3
Long-term government bonds	5.5	-1.7	-0.3	-1.7	-0.3	7.9	0.5
Corporate bonds	13.1	0.1	0.1	0.1	0.1	6.6	3.2
Emerging Market Bonds	3.0	4.1	0.5	4.1	0.5	14.9	1.3
Inflation Linked Bonds	8.7	-1.1	-0.4	-1.1	-0.4	5.1	1.6
Equities	34.2	6.7	8.6	6.7	8.6	12.1	14.2
Equities Developed Countries	25.0	5.3	5.1	5.3	5.1	10.9	9.8
Equities Emerging Countries	9.2	10.9	3.5	10.9	3.5	15.1	4.5
Alternative investments	17.2	-1.3	-0.9	-1.3	-0.9	12.5	7.4
Private Equity	5.0	-0.1	0.0	-0.1	0.0	14.8	2.5
Commodities	4.2	-5.5	-0.9	-5.5	-0.9	16.8	2.4
Opportunity Fund	0.6	-6.1	-0.1	-6.1	-0.1	5.0	0.1
Infrastructure	2.4	2.3	0.2	2.3	0.2	13.0	1.0
Hedge Funds	5.0	-0.1	0.0	-0.1	0.0	7.9	1.4
Real Estate	10.2	1.3	0.5	1.3	0.5	8.4	3.0
Real Estate	10.2	1.3	0.5	1.3	0.5	8.4	3.0
Portfolio return (before overlay)	99.9	2.1	7.8	2.1	7.8	9.4	32.7
Overlay *	0.1	-0.1	-0.4	-0.1	-0.4	0.1	0.3
Interest and inflation hedge*		-0.3	-1.1	-0.3	-1.1	1.3	4.4
Currency hedge*		0.2	0.8	0.2	0.8	-1.3	-4.7
Cash and Other *		0.0	0.0	0.0	0.0	0.2	0.6
Total	100.0	2.0	7.5	2.0	7.5	9.5	33.0