

Quarterly Report Q2 2016

ABP's financial position stable

Highlights:

- **Current coverage ratio virtually unchanged at: 90.6%**
- **Positive return for the second quarter 2016 of 3.9% (€ 13.9 billion)**
- **Liabilities rise due to declining interest rates (€ 14 billion)**
- **There continues to be a distinct probability of a reduction in pensions in 2017**

Heerlen, 21 July 2016. The second quarter was an eventful quarter, but on balance ABP's financial position remained stable. At the end of the second quarter, the current coverage ratio of 90.6% was virtually the same as it was at the end of the first quarter (90.4%). As such, the coverage ratio stayed just above the critical 90% limit.

ABP booked a positive investment return of almost € 14 billion in the second quarter and had € 372 billion in capital at the end of June.

Chairman Corien Wortmann-Kool: "Due to our positive second quarter investment results, we managed to keep our coverage ratio to virtually the same level as in the first quarter. A reduction in pensions in 2017 remains a real possibility, however. To prevent this, the coverage ratio as at the end of December this year must stay above the critical 90% limit. The development over the coming six months of the returns on the financial markets and of the interest rates used to calculate the pension liabilities are determining factors in this respect. The impact of the Brexit outcome at the end of the second quarter was limited due to positive returns before, as well as after the results of the British referendum."

Outlook: Probability of Reduction/Indexation

There continues to be a distinct probability that ABP will be forced to reduce pensions in 2017. If, at the end of the year, the coverage ratio remains at the same level as that of the second quarter of 2016 (90.6%), then ABP would be just above the critical limit (approximately 90%) and pensions would therefore remain the same. However, the monthly coverage ratio could increase or decrease depending on interest rate levels and the return on investments.

In ABP's current estimation, the fund will not, or barely, be in a position to increase (index) pensions over the coming 5 years.

Investments and Liabilities Trends

The available assets increased to € 372 billion in the second quarter. The return in the second quarter was 3.9% (€ 13.9 billion). A return of 6.2% (€ 21.7 billion) was achieved over the first half of 2016.

Almost all asset classes showed a positive return over the second quarter. The alternative investments achieved the highest increase (5.1%). Within that category, raw materials booked the highest return (14.5%). The hedging of the interest rate, inflation and currency risks was the only category to produce a slightly negative return (-0.2%).

The value of the liabilities (the total of all the pensions ABP must pay out now and in the future) increased by € 14 billion to € 411 billion in the second quarter. The decrease in the interest rate by 0.2% (rounded off) is the key reason for the increase in liabilities.

At the end of the second quarter of 2016, the policy coverage ratio (average of the last twelve monthly coverage ratios) was 94.4%. This is below the minimum (statutory) required level of 104.2%.

Investments Outlook

Brexit really shook up the global financial markets. However, ultimately the damage remained primarily limited to a significant decline of the British pound and real assets directly related to the financial sector or

the British economy itself. Naturally, Brexit increases the focus on political risks and therefore also on the upcoming referendum in Italy and elections in the US, the Netherlands, France and Germany. But it also once again illustrates the degree to which financial markets are dependent on monetary policy. Interest rates continued to drop and the crucial question for the financial markets remains whether the central banks will continue their stimulating policy. This is in line with expectations in the eurozone where inflation is still far below the ECB target.

Key Figures	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Policy coverage ratio (%)	101.3	99.7	98.7	96.8	94.4
Coverage ratio (%)	103.9	95.8	97.2	90.4	90.6
Available assets (€ billions)	356	345	351	359	372
Liabilities (€ billions)	343	360	361	397	411
Actuarial interest rate (%)	1.9	1.6	1.7	1.2	1.0

Investment Portfolio Composition and Return

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

	Weight %	Q2 2016		Cumulative Q2 2016		2015	
		Return %	Return € billions	Return %	Return € billions	Return %	Return € billions
Fixed-income Securities Nominal	30.1	3.9	4.5	6.5	7.3	3.2	3.3
Government bonds	9.2	2.3	1.0	5.7	2.5	1.3	0.6
Long-term government bonds	4.5	7.4	1.2	17.1	2.1	2.3	-0.2
Corporate bonds	13.8	3.5	1.7	3.8	1.9	5.8	2.8
Bonds emerging countries	2.7	6.9	0.6	10.2	0.9	3.2	0.1
Fixed-income Securities Inflation	9.1	2.9	1.0	4.9	1.6	0.1	-0.1
Index linked bonds	9.1	2.9	1.0	4.9	1.6	0.1	-0.1
Equities	32.5	3.7	4.1	0.2	0.3	7.5	9.8
Equities developed countries	24.3	3.6	2.8	-1.3	-1.1	11.7	11.0
Equities emerging countries	8.2	4.2	1.2	4.8	1.5	-4.7	-1.1
Alternative Investments	27.4	5.1	5.0	2.9	2.9	11.2	9.8
Real estate	10.3	4.4	1.6	4.5	1.6	16.9	5.6
Private Equity	4.8	3.2	0.6	1.2	0.2	24.8	3.9
Commodities	4.2	14.5	1.9	7.7	1.2	-20.0	-3.2
Opportunity Fund	0.6	1.0	0.0	-5.6	-0.1	10.0	0.3
Infrastructure	2.3	4.5	0.4	5.1	0.4	13.0	0.8
Hedge funds	5.1	2.6	0.5	-2.1	-0.4	13.0	2.4
Portfolio return (before overlay)	99.1	4.0	14.5	3.5	12.1	6.7	22.9
Asset Allocation & Overlay*	0.9	-0.2	-0.6	2.7	9.6	-4.0	-13.5
Interest rate and inflation hedge*		0.7	2.6	2.3	8.0	-0.5	-1.7
Currency hedge*		-0.9	-3.1	0.4	1.4	-3.5	-12.0
Cash and miscellaneous*		0.0	-0.1	0.1	0.3	0.0	0.1
Total	100.0	3.9	13.9	6.2	21.7	2.7	9.4

* Contribution to total return

For more information:

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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 2.8 million participants and € 372 billion in available assets (as at 30 June 2016).

Disclaimer

The figures in this document are partly based on estimates, and have not been audited by the external auditor or certifying actuary.