

## Quarterly Report Q3 2017

### Gradual rising ABP coverage ratio trend continues

#### Highlights:

- **Current coverage ratio in third quarter rises to 103.3%**
- **Investment return in third quarter: 1.9% (+ €7.3 billion)**
- **Liabilities in third quarter remain the same**
- **Policy coverage ratio rises to 99.3%**

Heerlen/Amsterdam, October 19, 2017. **The gradual rising ABP coverage ratio trend continued in the third quarter of 2017. ABP's financial position slightly improved four quarters in a row (starting from September 2016). The current coverage ratio rose by 2 percentage points to 103.3%. This is primarily due to the investment return. ABP's available assets increased by over € 7 billion this quarter to € 396 billion. Liabilities stayed the same as in the second quarter and amounted to € 383 billion.**

**Chairman Corien Wortmann-Kool:** 'The fact that the coverage ratios are increasing is positive. However, this does not mean that we should leave our system unchanged. The labor market has changed and participants have different demands. The current system is in dire need of change if we are to be able to offer our participants a robust and sound pension in the future as well. ABP is pleased that the modernization of the system is on the agenda of the governing agreement and that mandatory participation, tax margin and sharing good fortune and bad fortune together are being recognized as important fundamental principles. I hope that the employers' and employees' organizations in the Social and Economic Council (SER), with the support of the new government, will take the next step in adjusting the system. We will also continue to make a contribution to the continuing process on the basis of our expertise.'

#### Outlook: Probability of Reduction/Indexation

The policy coverage ratio was 99.3% at the end of September 2017. This coverage ratio (the twelve-month moving average of the current coverage ratios) determines whether it is possible to increase (index) pensions. In the third quarter of 2017, the policy coverage ratio once again displayed a rising trend: from 96.3% (end of June 2017) to 99.3% end of September. Yet, even with the current level, ABP does not expect to be able to index pensions much, if at all, in the next five years.

On the other hand, the probability that ABP will be forced to reduce pensions in 2018 has declined. However, this probability will continue to be present in the coming years. If the policy coverage ratio remains under the required level of 104.2% until the end of the year 2020, a reduction in pensions will be unavoidable.

Transfer of accrued benefits can occur when the policy coverage ratio is 100% or higher. This level has not yet been attained, but is coming within reach. ABP will inform its participants when this becomes the case.

#### Investments and Liabilities Trends

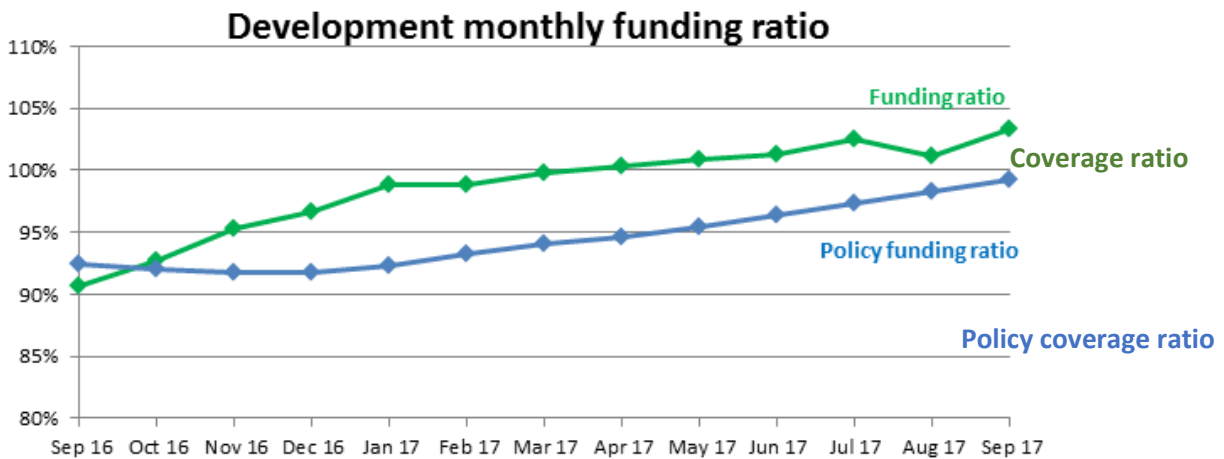
The available assets increased to € 396 billion in the third quarter. The return in the third quarter was 1.9% (+ € 7.3 billion). The total return since the beginning of 2017 is 3.9% (€ 14.7 billion). The equity portfolio made an important contribution to the return. The downside protection against currency risk made a significant contribution as well (see Annex).

The value of the liabilities (the total of all pensions ABP must pay out now and in the future) at € 383 billion stayed the same in the third quarter. The interest rate rose slightly, but due to rounding, the value of the liabilities remains the same.

### Investments Outlook

The global economy is performing better than expected with an improved outlook for the Euro zone, China and Japan. Company profits are rising. Producer and consumer confidence suggests further expansion. However, a number of key macroeconomic risks are lying in wait. For example, the rapid increase in debt in China is the most important macroeconomic risk, although it remains uncertain as to when this problem is going to manifest itself. Another risk is Europe's monetary policy. Inflation is staying low, which means that the central banks are slow in unwinding their generous monetary policy. For example, the ECB is not taking a decision on whether to quickly reduce the scope of its buying program in the Euro zone. The most striking deterioration is happening in the United Kingdom, where inflation is increasing and growth is weakening.

Key Figures	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Policy coverage ratio (%)	92.5	91.7	94.0	96.3	99.3
Coverage ratio (%)	90.7	96.7	99.8	101.3	103.3
Available assets (€ billions)*	381	382	389	389	396
Liabilities (€ billion)	420	395	390	383	383
Actuarial interest rate (%)	0.9	1.3	1.4	1.5	1.6



### 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 € 396 billion in available assets (as at September 30, 2017).

**Appendix:**
**Investment Portfolio Composition and Return**

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

	Weight	Q3 2017		2017		2016	
		Return		Return		Return	
		%	€ billions	%	€ billions	%	€ billions
<b>Fixed-income securities</b>	<b>37.4</b>	<b>0.0</b>	<b>0.0</b>	<b>-1.0</b>	<b>-1.5</b>	<b>5.5</b>	<b>8.0</b>
Government bonds	5.9	0.3	0.1	-0.1	0.0	2.6	1.3
Long-term government bonds	6.7	0.3	0.1	-0.6	-0.1	7.9	0.5
Corporate bonds	13.5	-0.5	-0.3	-2.3	-1.2	6.6	3.2
Emerging market bonds	2.9	-0.4	0.0	-0.2	0.0	14.9	1.3
Inflation-linked bonds	8.4	0.6	0.2	-0.3	-0.1	5.1	1.6
<b>Equity</b>	<b>36.2</b>	<b>2.2</b>	<b>3.0</b>	<b>7.5</b>	<b>9.7</b>	<b>12.1</b>	<b>14.2</b>
Equity developed countries	27.2	1.4	1.5	4.6	4.5	10.9	9.8
Equity emerging countries	9.0	4.5	1.6	16.1	5.2	15.1	4.5
<b>Alternative investments</b>	<b>17.1</b>	<b>1.2</b>	<b>0.8</b>	<b>-4.1</b>	<b>-2.8</b>	<b>12.5</b>	<b>7.4</b>
Private Equity	4.8	2.1	0.4	2.6	0.5	14.8	2.5
Commodities	4.7	4.6	0.7	-11.6	-1.9	16.8	2.4
Opportunity Fund	0.4	-6.7	-0.1	-14.2	-0.3	5.0	0.1
Infrastructure	2.7	0.7	0.1	4.9	0.5	13.0	1.0
Hedge funds	4.5	-1.6	-0.3	-7.4	-1.4	7.9	1.4
<b>Real Estate</b>	<b>9.8</b>	<b>-0.3</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>8.4</b>	<b>3.0</b>
Real Estate	9.8	-0.3	-0.1	0.0	0.0	8.4	3.0
<b>Portfolio return (before overlay)</b>	<b>100.4</b>	<b>1.0</b>	<b>3.7</b>	<b>1.4</b>	<b>5.5</b>	<b>9.4</b>	<b>32.7</b>
<b>Overlay*</b>	<b>-0.4</b>	<b>0.9</b>	<b>3.6</b>	<b>2.4</b>	<b>9.2</b>	<b>0.1</b>	<b>0.3</b>
Interest rate and inflation hedge*		-0.1	-0.2	-0.6	-2.4	1.3	4.4
Currency hedge*		0.9	3.5	3.0	11.5	-1.3	-4.7
Cash and other*		0.1	0.2	0.0	0.1	0.2	0.6
<b>Total</b>	<b>100.0</b>	<b>1.9</b>	<b>7.3</b>	<b>3.9</b>	<b>14.7</b>	<b>9.5</b>	<b>33.0</b>

\* contribution to total return