

Quarterly Report Q4 2016

ABP's financial position improves due to interest rate rise

Highlights:

- Current coverage ratio rises by 5.9% to 96.6% in Q4
- Positive investment return in fourth quarter: 0.4% (€1.5 billion)
- Return in 2016: 9.5% (€33 billion)
- Liabilities decline in fourth quarter due to rising interest rates (€25 billion)
- No pension reduction in 2017

Heerlen/Amsterdam, January 27, 2017. **ABP's financial position improved considerably in the fourth quarter. The current coverage ratio rose by 5.9% to 96.6%. That is well above the critical level under which pensions would have to be reduced. Consequently, pensions will not be reduced in 2017. The improved financial position is mainly attributable to interest rate movements in the fourth quarter. The increase in the interest rate reduced the liabilities by €25 billion. ABP also posted positive investment results. The Fund's return was 9.5% in 2016, of which 0.4% in the last quarter. At the end of December, ABP had capital amounting to €382 billion.**

Chairman Corien Wortmann-Kool: "I'm very pleased that we won't have to reduce our participants' pensions in 2017. Although, at the same time, I should add that the chill is not out of the air yet. So it isn't possible to promise there'll be no reductions in the coming years. As yet, our financial position is not at the desired level. The volatility of interest rates is a determining factor in this context; a factor embedded in the current system. Added to labor market developments and the participants' need for greater insight and choice, this reinforces my conviction that we must have the will and courage to change our pension system. ABP would like to see a move towards a personal pension with protection. I hope that together with the employers' and employees' organizations, as well as a new cabinet, we will be able to bring about a much-needed modernization in the interests of sustainable and good pensions for both current and future generations."

Outlook: Probability of Reduction/Indexation

On the basis of the most recent policy coverage ratio (91.7%), ABP currently estimates that the fund will not, or will barely, be in a position to increase (index) pensions in the next 5 years. This coverage ratio (the twelve-month average of the prevailing coverage ratio) determines whether it is possible to increase (index) the pensions. In 2016, the trend of the policy coverage ratio was downwards, from 98.7% (end December 2015) to 91.7% at the end of December 2016. ABP may gradually increase the pensions once the policy coverage ratio is 110%.

There is still a distinct possibility that ABP will be forced to reduce pensions in 2018. This would be obligatory if the coverage ratio was below the critical level (currently: 87.9%) at the end of 2017, or if the policy coverage ratio remained under the required level of 104.2% until the end of the year 2020.

Investments and Liabilities Trends

The available assets rose to €382 billion in the fourth quarter. The return in the fourth quarter was 0.4% (€1.5 billion). The realized return over 2016 was 9.5% (€33 billion).

In the fourth quarter, the equities portfolio and alternative investments (such as real estate and commodities) showed a positive return. The fixed-income category and the interest rate and currency hedges posted a negative return. However, in the year 2016, almost all the asset classes realized a positive 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 €25 billion to €395 billion in the fourth quarter. The 0.4% (rounded off) increase in the actuarial interest rate was the key reason for the decrease in liabilities.

Investments Outlook

The global economy is gaining momentum and most indications suggest this trend will continue in 2017. The improved economic activity and the expectation of higher inflation has led to rising interest rates in the capital markets, a trend that started even before the American election. The combination of higher interest rates and a strong dollar is inhibiting the global investment and financing climate, but the effect is not expected to be sufficient to derail the global economy. Just as in 2016, political risks will prevail; elections are due to be held in the Netherlands (March), France (May) and Germany (August). The French elections are particularly important due to Eurosceptic sentiments. So far, the political risks have not negatively impacted the financial markets. However, if another country calls a referendum about EU membership, the positive sentiment could quickly be turned round.

Key figures	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Policy coverage ratio (%)	98.7	96.8	94.4	92.5	91.7
Coverage ratio (%)	97.2	90.4	90.6	90.7	96.6
Available assets (€ billion)*	351	359	372	381	382
Liabilities (€ billion)	361	397	411	420	395
Actuarial interest rate (%)	1.7	1.2	1.0	0.9	1.3

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 €382 billion in available assets (as of December 31, 2016).

Appendix:

	Weight in %	Q4 2016		2016		2015	
		Return		Return		Return	
		in %	in billion €	in %	in billion €	in %	in billion €
Nominal Fixed-income Inflation	30.6	-1.7	-2.0	5.6	6.3	3.2	3.3
Government bonds	9.3	-3.4	-1.3	2.6	1.3	1.3	0.6
Long-term government bonds	5.1	-8.1	-1.6	7.9	0.5	2.3	-0.2
Corporate bonds	13.3	1.5	0.7	6.6	3.2	5.8	2.8
Emerging Market Bonds	3.0	2.1	0.2	14.9	1.3	3.2	0.1
Inflation Fixed-income Inflation	8.8	-1.7	-0.6	5.1	1.6	0.1	-0.1
Inflation Linked Bonds	8.8	-1.7	-0.6	5.1	1.6	0.1	-0.1
Equities	33.7	6.7	8.3	12.1	14.2	7.5	9.8
Equities Developed Countries	25.2	8.4	7.7	10.9	9.8	11.7	11.0
Equities Emerging Countries	8.5	1.9	0.6	15.1	4.5	-4.7	-1.1
Alternative investments	27.5	7.3	7.1	10.9	10.5	11.2	9.8
Real Estate	10.3	2.5	1.0	8.4	3.0	16.9	5.6
Private Equity	5.1	10.8	1.9	14.8	2.5	24.8	3.9
Commodities	4.1	12.7	1.8	16.8	2.4	-20.0	-3.2
Opportunity Fund	0.6	8.4	0.2	5.0	0.1	10.0	0.3
Infrastructure	2.3	6.0	0.5	13.0	1.0	13.0	0.8
Hedge Funds	5.0	10.1	1.8	7.9	1.4	13.0	2.4
Portfolio return (before overlay)	100.6	3.4	12.8	9.4	32.7	6.7	22.9
Overlay *	-0.6	-3.0	-11.4	0.1	0.3	-4.0	-13.5
Interest and inflation hedge*		-1.2	-4.4	1.3	4.4	-0.5	-1.7
Currency hedge*		-1.9	-7.0	-1.3	-4.7	-3.5	-12.0
Cash and Other *		0.0	0.1	0.2	0.6	0.0	0.1
Total	100.0	0.4	1.5	9.5	33.0	2.7	9.4

* contribution to total return