

Quarterly Report Q3 2018

Improved financial position continues into third quarter "Failure to raise pensions in the coming years can no longer be explained"

Highlights:

- Policy coverage ratio ABP (104.7%) above minimum required level
- Pensions very probably not raised or lowered in 2019
- Return on investments third quarter +1.1% (+€4.7 billion)

Heerlen/Amsterdam, October 18, 2018. **ABP's financial position improved again in the third quarter of 2018. In this quarter, at 104.7% the policy coverage ratio, important for raising and lowering pensions, has risen above the minimum required level for the first time since the end of 2014. Based on the current financial position, ABP cannot raise pensions in 2019. The probability of them being lowered next year is almost zero.**

Chairman Corien Wortmann-Kool: "We see that ABP's financial position is gradually improving. But we can't raise the pensions of employees and retired employees in line with inflation in the coming years. I can no longer explain that to our participants. We see that the economy is recovering and that salaries in the Netherlands are rising. But our participants are not reaping the benefits. Pensions are just not keeping pace at all with the improved economic climate. In the interests of our participants, I feel that the cabinet and employers' and employees' organizations must start working on a new pension system. A system in which pensions can be raised when the economy is doing well and lowered when times are hard. A system that better reflects the labor market and above all is easier for our participants to understand."

What can participants of ABP expect?

Based on the situation at the end of the third quarter of 2018, the probability that pensions will be lowered in 2019 is almost zero. The probability is small for subsequent years too. Nor are we expecting to be able to raise pensions in line with indexation in 2019 and subsequent years. The accumulated reserve is still too small for that.

ABP's coverage ratios: level and meaning

The coverage ratio of a pension fund indicates whether a pension fund can pay out pensions now and in the future. It shows the ratio between the available assets (€419 billion) and the liabilities of ABP, which are all the current and future pension payments (€396 billion).

In the third quarter, the policy coverage ratio rose from 104.1% at the end of June to 105.9% at the end of September 2018. For every €100 that ABP pays out in pensions, there is €105.90 in capital. There is therefore a small buffer, which complies with the minimum requirement (104.2%).

In the third quarter, the policy coverage ratio (the average of the coverage ratios over the past twelve months) rose from 103.9% at the end of June to 104.7% at the end of September. On the one hand, this coverage ratio determines the rise of the pension. Partial indexation is permitted when the policy coverage ratio is 110% or higher. Full indexation is permitted when the policy coverage ratio is 123% or higher. At the current 104.7%, this is still far off. On the other hand, the policy coverage ratio can play a role in lowering the pension. If the policy coverage ratio remains under the required level of 104.2% until the end of 2020, a reduction in pensions will be unavoidable. If ABP manages to maintain the current position at the end of this year, this possible reduction will not happen.

What did ABP's investments and liabilities do in the third quarter of 2018?

The available assets increased from €414 billion to €419 billion. ABP had a positive return of 1.1% (€4.7 billion) This was mainly due to the categories of equities and alternative investments. Covering the currency risk produced negative returns. The euro's weak position relative to other important currencies, such as the dollar, played a key role in this respect. Over the first three quarters of 2018, returns were +2.4% (€10 billion).

The actuarial interest rate rose 0.1% in the third quarter. The value of all the pensions that ABP must pay out now and in the future therefore rose slightly to €396 billion. When the interest rate rises, a fund does not need to keep as much capital to fulfill all its liabilities, now and in the future.

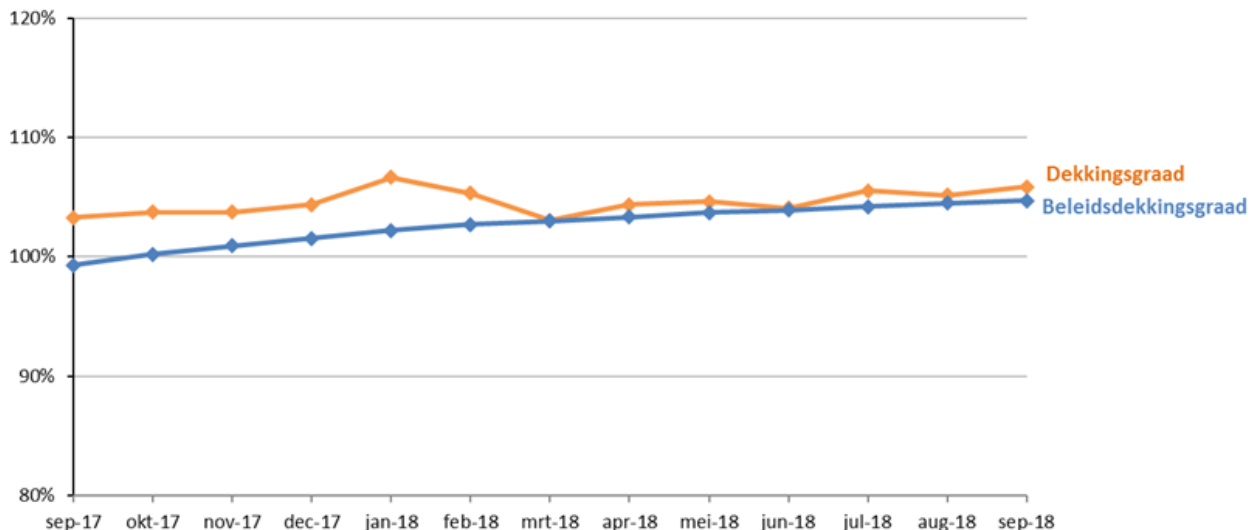
Investments outlook

In the coming quarters, the global economy will continue to grow. Operating profit is also expected to remain high. However, further acceleration is not self evident. In addition, the impact of the trade conflict between the United States and China, and the pending departure of the United Kingdom from the European Union, play an important role. Furthermore, the central banks are winding down their incentive policy. This will mean that interest rates will gradually rise. That is a new reality for financial markets, which produced good returns in recent years with low interest rates and faster economic growth.

Key figures	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Policy coverage ratio (%)	99.3	101.5	103.0	103.9	104.7
Coverage ratio (%)	103.3	104.4	103.0	104.1	105.9
Available assets (€ billion)*	396	409	405	414	419
Liabilities (€ billion)	383	392	393	398	396
Actuarial interest rate (%)	1.6	1.5	1.5	1.4	1.5

* The key factors causing movements in available assets are the investment return achieved, contributions received, and benefits paid.

Ontwikkeling dekkingsgraden per maandeinde



Appendix: Investment Portfolio Composition and Return

	Weight in %	Q3 2018		2018		2017	
		Return		Return		Return	
		in %	in € billion	in %	in € billion	in %	in € billion
Fixed-income values	37.2	-0.6	-1.0	-0.5	-0.8	-0.2	-0.3
Government bonds	5.8	-1.1	-0.3	-1.3	-0.4	0.3	0.1
Long-term government bonds	6.9	-2.1	-0.6	-0.8	-0.2	1.2	0.4
Corporate bonds	13.5	0.7	0.4	1.3	0.7	-2.2	-1.2
Emerging market bonds	2.9	-0.3	0.0	-4.4	-0.5	-1.0	-0.1
Inflation-linked bonds	8.0	-1.4	-0.5	-1.4	-0.5	1.5	0.5
Equities	35.9	3.7	5.4	5.6	8.2	12.3	16.0
Equities, developed countries	27.3	5.4	6.0	9.4	10.3	8.7	8.7
Equities, emerging markets	8.7	-1.6	-0.5	-6.0	-2.1	23.0	7.4
Alternative investments	17.4	3.0	2.1	11.0	7.3	0.1	0.1
Private Equity	5.1	6.0	1.2	13.6	2.6	9.7	1.7
Commodities	4.7	2.4	0.4	14.8	2.6	-4.9	-0.7
Opportunity Fund	0.3	1.7	0.0	10.0	0.1	-12.6	-0.3
Infrastructure	2.6	1.3	0.1	7.5	0.8	8.3	0.8
Hedge funds	4.6	1.3	0.3	6.4	1.1	-7.5	-1.5
Real estate	9.8	0.4	0.2	4.3	1.7	3.4	1.3
Real estate	9.8	0.4	0.2	4.3	1.7	3.4	1.3
Portfolio return (before overlay)	100.2	1.6	6.6	4.0	16.3	4.5	17.1
Overlay *	-0.2	-0.5	-1.9	-1.5	-6.3	3.1	11.6
Interest rate and inflation hedge *		-0.1	-0.6	0.0	0.2	-0.4	-1.4
Currency hedge *		-0.3	-1.3	-1.5	-6.2	3.4	12.9
Cash and other *		0.0	0.0	-0.1	-0.3	0.0	0.1
Total	100.0	1.1	4.7	2.4	10.0	7.6	28.7

* contribution to total return

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 €419 billion in available assets (as at September 30, 2018).