ABP Annual Report 2020

- **No reduction of pensions in 2021**
- **ABP believes that an unnecessary reduction in the transition period must be avoided**
- **Current coverage ratio at the end of 2020 93.2% (2019 97.8%)**
- **Annual return of +6.2% (+€29 billion)**
- **Increase in pension liabilities by €53 billion mainly due to lower interest rate**

Heerlen/Amsterdam, January 21, 2021**. Thanks to the coronavirus pandemic, 2020 was an unusual year across the world. The impact on ABP, too, was considerable. The coverage ratio went into a nosedive in the first quarter (from 97.8% to 82.0%) and was in the danger zone for quite a while. On the back of the recovering stock markets and stable interest rates in the fourth quarter, the coverage ratio rose above the 90% mark. With a coverage ratio of 93.2% as of December 31, 2020, a lowering of pensions at ABP has been ruled out for this year. Despite the poor first quarter (- €46 billion), ABP posted a positive annual return of 6.2% in 2020 (+€29 billion, see graph). Liabilities rose sharply last year by €53 billion.**

Chairman, Corien Wortmann-Kool: “We are unlikely to forget 2020 any time soon. The coronavirus pandemic has had major repercussions for people personally and for their work. The coronavirus crisis also had a serious impact on the economy and financial markets, and ABP suffered greatly from this, particularly in the first quarter. Despite the coronavirus crisis, our investors saw good results this year. We ended the year with historically high assets of €493 billion. With a coverage ratio of 93.2%, a reduction is ruled out for this year. An increase in pensions is highly unlikely and the chances of reductions remain real for the foreseeable future. Together with other large funds, we are working hard on a new pension contract for 2026, one in which interest rates will play a smaller role so that we can raise pensions earlier once the economy improves. That said, the likelihood of a reduction remains if things do not go as well as we hope. Having said that, pension reductions can only be considered if they are necessary from the point of view of the new pension contract, and that has not yet been fully set out. That is why I am calling on Minister Koolmees to provide clarity – as soon as possible – on the rules for the period up to 2026 so that we can avoid unnecessary reductions.”

Avoiding an unnecessary reduction for participants

Pensions will remain unchanged in 2021. The likelihood of reductions in 2022 and the years that follow remains real. ABP believes that unnecessary reductions in the transition period until there is a new pension contract should be avoided. Reductions that would not take place based on the rules of the new contract are unnecessary. According to ABP, strict calculation rules that are not in line with the new contract should not be applied during the transition period. While this does not rule out reductions, they should only be considered if the economy does not fare well. We do not expect to be able to raise pensions in line with indexation in the years to come.

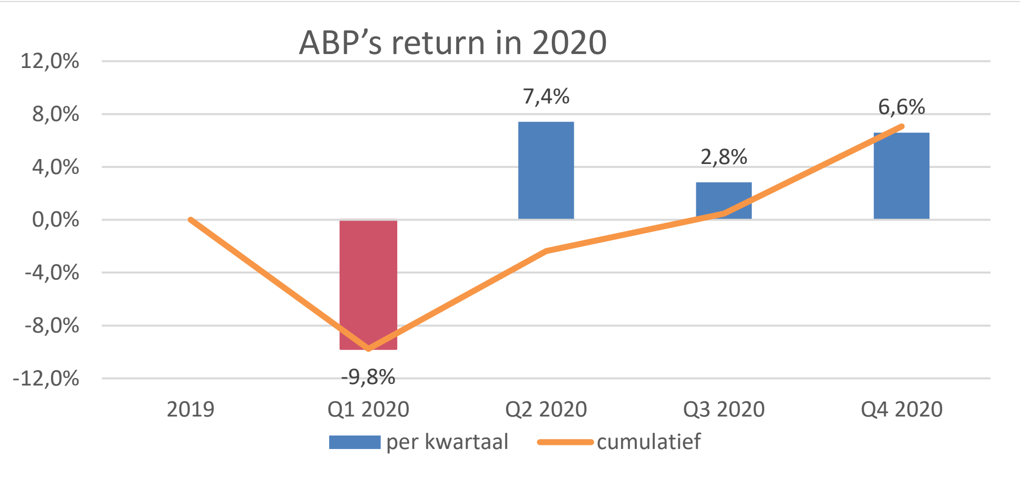
ABP’s coverage ratios: level and significance

The current coverage ratio fell from 97.8% to 93.2% in 2020. In the first quarter, the coverage ratio fell from 97.8% to 82.0%. Financial markets were under pressure and the interest rate dropped. In the second, third, and fourth quarters, the current coverage ratio rose again to reach 93.2% by the end of the year. This put the coverage ratio above the 90% limit. Minister Koolmees adjusted the limit for pension reduction from 104% to 90% due to the exceptional circumstances. ABP is taking advantage of this.

The coverage ratio of a pension fund provides an indication of whether it will be able to pay out all current and future pensions. It expresses the ratio between ABP's available assets (€493 billion) and liabilities, which are all the current and future pension payments (€529 billion).
The policy coverage ratio (the average of the coverage ratios over the past twelve months) fell from 95.8% to 87.6% during the course of 2020.

How did ABP's investments and liabilities fare in 2020?

Despite the coronavirus crisis, ABP's available assets grew in 2020 from €466 billion at the end of 2019 to €493 billion. ABP reported a positive return of 6.2% over the whole of 2020. The equity and fixed-income securities categories, in particular, performed relatively well. Real estate and commodities ended in negative territory. ABP's investments took a severe knock in the first quarter, but recovered in the quarters that followed. The best returns were posted in the second and fourth quarters.
The actuarial interest rate fell by half a percentage point in 2020 (from 0.7% to 0.2%). This caused the value of the pensions which ABP has to pay out, now and in the future, to rise substantially from €476 billion at the end of 2019 to €529 billion at the end of December 2020. This increase had a negative impact on the coverage ratio. If the interest rate falls, funds have to keep more of their assets in liquid form to meet all their liabilities.



Investment outlook

Now that global vaccination programs against the coronavirus are being rolled out, an upturn in the economy is on the horizon. Having said that, economic recovery will ultimately involve the reversal of monetary and fiscal support operations. This is a delicate process, with implications for interest rates, creditworthiness, and possibly equity market valuations. This could lead to an improved financial position for the fund provided interest rates rise sufficiently and equity markets remain relatively stable. If interest rates in the States rise sharply, equity markets fall as a result, while European interest rates remain low, this will weaken the fund's financial position.

Key figures	**Q4 2019**	**Q1 2020**	**Q2 2020**	**Q3 2020**	**Q4 2020**
Policy coverage ratio (%)	95.8	93.0	89.7	88.7	87.6
Coverage ratio (%)	97.8	82.0	85.2	88.2	93.2
Available assets (€ billion)	466	420	451	463	493
Liabilities (€ billion)	476	512	529	525	529
Actuarial interest rate (%)	0.7	0.4	0.3	0.2	0.2

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

ABP investment portfolio composition and returns

	Weight	Q4 2020 Return		2020 Return		2019 Return	
	in %	in %	in € billion	in %	in € billion	in %	in € billion
Fixed-income securities	**38.1**	**0.8**	**1.4**	**3.7**	**6.3**	**8.7**	**14.0**
Government bonds	8.9	0.2	0.1	4.2	1.8	5.6	1.7
Long-term government bonds	10.2	0.3	0.2	11.6	4.2	11.7	3.5
Corporate bonds	13.2	0.2	0.1	1.3	0.7	9.4	5.3
Emerging market bonds	4.9	4.1	0.9	-4.3	-0.6	15.1	2.0
Inflation-linked bonds	1.0	1.4	0.1	2.8	0.3	4.7	1.6
Equities	**33.2**	**10.5**	**16.6**	**8.7**	**13.8**	**27.4**	**35.9**
Equities, developed countries	25.9	9.0	11.0	8.2	9.8	28.2	27.7
Equities, emerging markets	7.3	15.6	5.6	10.7	3.9	25.3	8.2
Alternative investments	**18.9**	**8.2**	**6.9**	**-1.5**	**-0.5**	**14.6**	**10.1**
Private equity	6.0	15.5	4.0	14.8	3.8	22.3	4.7
Commodities *	5.3	8.6	2.0	-20.5	-3.1	16.5	2.6
Infrastructure	3.3	4.0	0.6	-1.3	-0.2	13.3	1.6
Hedge funds **	4.1	1.5	0.3	-4.2	-0.9	7.1	1.4
Real estate	**8.9**	**4.5**	**1.9**	**-10.2**	**-4.8**	**18.4**	**7.4**
Real estate	8.9	4.5	1.9	-10.2	-4.8	18.4	7.4
Portfolio return (before overlay)	**99.1**	**5.8**	**26.8**	**3.2**	**14.9**	**16.9**	**67.4**
Overlay * **	**0.9**	**0.8**	**3.8**	**3.0**	**14.1**	**-0.1**	**-0.4**
Interest and inflation hedge ***		0.0	0.2	1.1	5.1	1.7	6.8
Currency hedge ***		0.9	4.4	1.7	8.0	-1.4	-5.7
Cash and other ***		-0.2	-0.8	0.2	1.1	-0.4	-1.6
Totally	**100.0**	**6.6**	**30.6**	**6.2**	**29.0**	**16.8**	**66.9**

* Commodities have 100% USD exposure; expressed in USD, the return over Q4 was +13.4%

** Hedge funds have 100% USD exposure; expressed in USD, the return over Q4 was +5.9%

*** Contribution to total return on investment