

## Quarterly Report Q3 2019 24 October 2019

# ATP achieves the highest ever investment return for the first three quarters of the year.

**The investment portfolio generated a return of DKK 36.9bn before costs and taxes, equivalent to a rate of return of 40.0 per cent relative to the bonus potential at the start of the year.**

Primarily state and mortgage bonds, along with Danish and foreign listed equities contributed to the historically high return with DKK 19.5bn, DKK 7.0bn, and DKK 5.0bn, respectively.

"We have created an unusually positive result for the first three quarters of 2019, delivering very high investment returns for the benefit of our members. We will continue our disciplined approach to portfolio construction and risk management to safeguard the basic financial security for members in the longer term, particularly as we anticipate lower investment returns in future years and greater fluctuations," says Bo Foged, CEO at ATP.

The previous five years have realised average investment portfolio returns of 17.6 per cent relative to the bonus potential at the start of the year. The investment portfolio has realised positive returns in 16 of the previous 20 quarters.

### Hedging protects pension guarantees

Hedging of guaranteed pensions is designed to ensure that members receive the pensions promised, regardless of whether interest rates rise or fall. Primarily as a result of falling interest rates for Danish and European government bonds with long residual maturity, the value of guaranteed pensions increased over the first three quarters of the year by DKK 121.9bn. At the same time, the hedging portfolio showed a positive return after tax of DKK 122.8bn. Hedging thus worked as intended. The total negative outcome of Hedging of DKK 2.8bn, equal to 0.3 per cent of the guaranteed pensions, is due to yield curve break, see financial highlights, page 2.

### Net profit for the period

The result for the first three quarters of the year was DKK 31.8bn. At the end of Q3 2019, the bonus potential (ATP's free reserves) totalled DKK 124bn, equal to a 15.3 per cent over-hedging relative to guaranteed pensions of DKK 810bn. ATP's aggregate netassets amounted to DKK 934bn.

Based on the outcome of the first three quarters of the year, ATP is currently slated to pay DKK 27.5bn in tax on pension savings returns for 2019.

### Further information:

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### Facts about ATP

ATP is a mandatory pension scheme with 5,246,000 members. During the first three quarters of the year, ATP's members contributed DKK 7.5bn. By the end of Q3 2019, 1,050,000 pensioners were receiving ATP Livslang Pension (Lifelong Pension). During the first three quarters of the year, ATP paid out DKK 12.8bn in pensions and lump sum payments. Approximately 40 per cent of the nation's old age pensioners have no other pension income than ATP and the old age pension. The full ATP Livslang Pension for a 65½-year-old is DKK 24,500.

## Financial Highlights and Ratios for the ATP Group

DKKm	Q3 2019	Q1-Q3 2019	Q1-Q3 2018	FY 2018
<b>Investment</b>				
Investment return	7,347	36,943	6,934	(3,714)
Expenses	(234)	(711)	(678)	(953)
Tax on pension savings returns and corporate income tax	(1,053)	(5,339)	(914)	949
<b>Investment activity results</b>	<b>6,060</b>	<b>30,893</b>	<b>5,342</b>	<b>(3,718)</b>
<b>Hedging activities</b>				
Change in guaranteed pensions due to discount rate and maturity reduction <sup>1</sup>	(48,664)	(121,948)	(10,561)	(27,866)
Return on the hedging portfolio	57,360	145,028	12,763	32,932
Tax on pension savings returns	(8,776)	(22,189)	(1,952)	(5,039)
<b>Results of hedging of pension liabilities</b>	<b>(80)</b>	<b>890</b>	<b>250</b>	<b>27</b>
Change in guaranteed pensions due to yield curve break <sup>2</sup>	(1,600)	(3,691)	(2,275)	(3,106)
<b>Hedging activity results</b>	<b>(1,680)</b>	<b>(2,800)</b>	<b>(2,025)</b>	<b>(3,079)</b>
<b>Investment and hedging activity results</b>	<b>4,381</b>	<b>28,093</b>	<b>3,317</b>	<b>(6,797)</b>
<b>Pension</b>				
Contributions	2,500	7,460	7,340	9,871
Pension benefits	(4,229)	(12,778)	(12,627)	(16,878)
Change in guaranteed pensions due to contributions and payouts	1,734	5,957	6,509	8,505
Administration expenses	(49)	(142)	(147)	(197)
Other items	3	5	6	9
<b>Pension activity results before life expectancy update</b>	<b>(41)</b>	<b>501</b>	<b>1,081</b>	<b>1,310</b>
<b>Business processing, external parties</b>				
Income	581	1,836	1,859	2,458
Expenses	(589)	(1,841)	(1,865)	(2,450)
Corporate income tax	0	0	0	(1)
<b>Business processing result, external parties</b>	<b>(8)</b>	<b>(5)</b>	<b>(6)</b>	<b>7</b>
<b>Results before bonus allowances and life expectancy update</b>	<b>4,332</b>	<b>28,589</b>	<b>4,392</b>	<b>(5,480)</b>
Life expectancy update	0	3,231	(20,025)	(20,025)
Bonus addition for the period	0	0	0	0
<b>Net profit for the period</b>	<b>4,332</b>	<b>31,820</b>	<b>(15,633)</b>	<b>(25,505)</b>
Guaranteed pensions	809,824	809,824	677,233	693,373
Bonus potential	123,788	123,788	101,984	92,086
<b>Net assets</b>	<b>933,612</b>	<b>933,612</b>	<b>779,217</b>	<b>785,459</b>

Return ratios	Q1-Q3 2019	1 year	3 years	5 years
Return on investment before expenses and tax relative to the bonus potential in per cent <sup>3</sup>	40.0	25.2	21.2	17.6
Risk-adjusted return <sup>4</sup>	1.5	0.8	0.7	0.7
Result before updating life expectancy and bonus relative to guaranteed benefits in per cent	3.5	2.4	2.3	2.0

<sup>1</sup> Before effect of yield curve break

<sup>2</sup> 'Yield curve break' is the point on the yield curve at 40 years where the guaranteed benefits shift from being discounted by a fixed rate to being discounted by a market rate.

<sup>3</sup>The investment portfolio follows a factor investing approach, the focus of which is on risk rather than on the amount of DKK invested. The investment portfolio, as a general rule, consists of funds from the bonus potential. Funds not tied up in the hedging portfolio as a result of the use of derivative financial instruments are available for investment in the investment portfolio on market terms. In practice, this means that the investment portfolio can operate with a higher statement of financial position than the bonus potential, but within the same risk budget. The market value at the end of Q3 2019 was DKK 344.4bn. The market value of the investment portfolio also includes financial derivatives of which the market value will typically be low, zero or negative.

<sup>4</sup> Risk adjusted return is a return measure similar to the Sharpe ratio, which expresses the relationship between actual return and expected market risk of the portfolio, i.e. a measurement to show whether the risk utilisation is efficient. Expected market risk modelling is based on historic observations going back to the beginning of 2008.

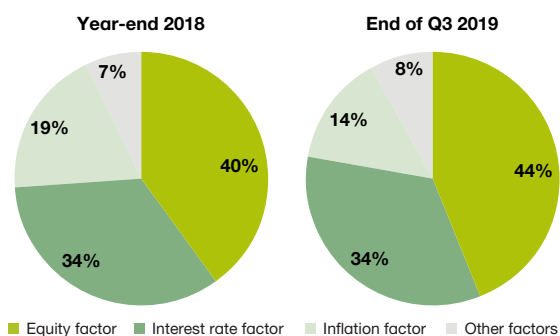
## Investment portfolio

The primary aim for management of ATP investments is the investment risk, which, first and foremost, includes market risk. At ATP, the investment portfolio market risk is calibrated such that the expected long-term yield is sufficient to real value secure the guaranteed pensions via bonus accrual at the same time as ATP's risks are at all times contained within the risk appetite determined by ATP's Supervisory Board. A central element to the ATP investment strategy is that the investment portfolio market risk is adjusted in line with the size of the bonus potential, such that ATP's risks are always contained within the risk appetite.

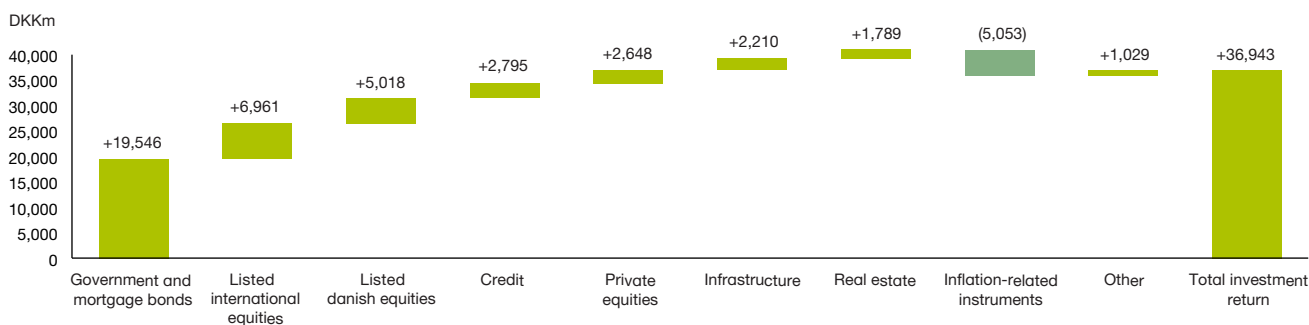
To maintain a robust and diversified investment portfolio with stable returns and the greatest possible independence from cyclical variations, investment portfolio decisions are informed by a strategy of risk diversification across four basic risk factors. The four risk factors are: 'Equity factor', 'Interest rate factor', 'Inflation factor', and 'Other factors'. The risk associated with each investment is allocated to the four factors based on the types of risk to which the investment is exposed.

The allocation of risk into risk factors enables uniform management of all investment activities and a comparison of returns and risks across asset classes. This provides the framework for the composition of our investments. In the returns report, ATP also refers to the traditional asset classes. You can read more about the factor-based investment approach in the article "Developments in ATP's investing approach" in the 2018 ATP Group annual report.

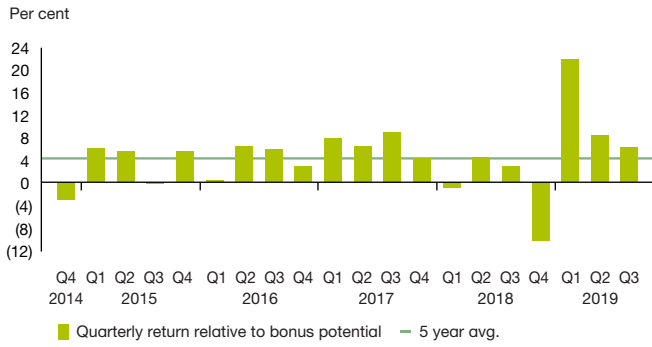
## Risk allocation in the investment portfolio



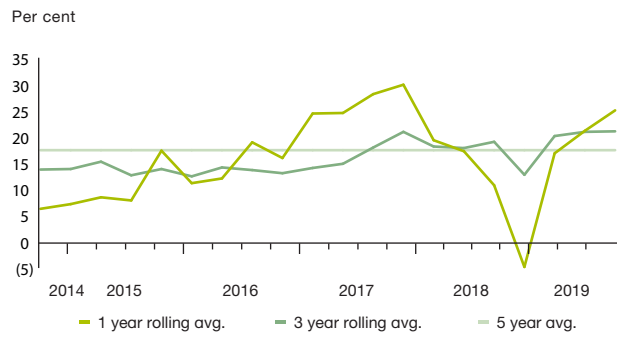
## Composition of investment return, Q1-Q3 2019



**Historic quarterly returns in the investment portfolio before expenses and tax relative to the bonus potential**



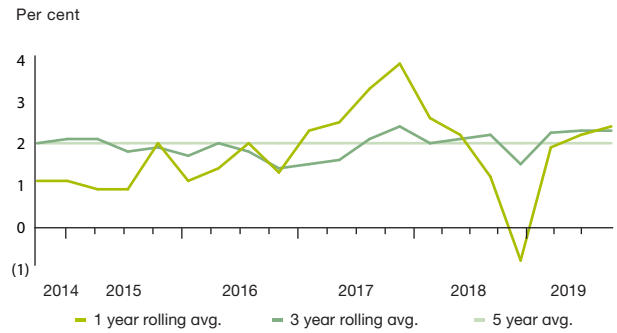
**Rolling annual returns in the investment portfolio before expenses and tax relative to the bonus potential**



**Risk-adjusted return in the investment portfolio**



**Rolling result before updating life expectancy and bonus relative to guaranteed benefits**



Note: Risk adjusted return is a return measure similar to the Sharpe ratio, which expresses the relationship between actual return and expected market risk of the portfolio, i.e. a measurement to show whether the risk utilisation is efficient. Expected market risk modelling is based on historic observations going back to the beginning of 2008.