

Quarterly announcement Q1-Q3 2016

25 October 2016

ATP posts YTD return of DKK 12.3 per cent in the investment portfolio following a strong quarter

In the first three quarters of the year, the ATP Group posted a return in the investment portfolio of DKK 12.5bn, equivalent to 12.3 per cent return relative to ATP's bonus potential. The return was driven primarily by positive returns in private equity, fixed income, and credit, while ATP's long-term hedging strategies against inflation increases detracted from the return. Seen separately, Q3 recorded an investment return of DKK 5.7bn, equivalent to 5.8 per cent relative to the bonus potential. The hedging portfolio protected the pension guarantees against the significant decline in interest rates in the first nine months of the year.

ATP has divided its assets into two portfolios: a hedging portfolio (composed of long-dated fixed income instruments) which insulates ATP's liabilities against interest rate risk, and a return-seeking investment portfolio (employing a risk parity approach with four risk factors) which deploys ATP's free reserves (bonus potential).

Strong returns in the investment portfolio

ATP's return-seeking investment portfolio posted a strong YTD return of 12.3 per cent driven mainly by private equity (contributing DKK 5.3bn), but fixed income, credit, real estate and infrastructure all made large positive contributions. Conversely, ATP's long-term hedging strategies against inflation increases detracted DKK 3.7bn from the return. The 3 year average investment return relative to the bonus potential stands at 13.8 per cent.

"We are delighted with how our investment portfolio has performed so far this year, with most asset classes performing strongly. The YTD returns of 12.3 per cent exceed our ex ante return expectations and we do not expect these high returns to continue given the challenges that Europe, in particular, is facing with weak economic growth, an extreme monetary policy situation where half of Europe's government debt has negative interest rates, an undercapitalised financial sector, and the prospects of a hard Brexit," says ATP CEO Carsten Stendevad.

Pension guarantees protected by the hedging portfolio

Hedging aims to ensure that members receive the pensions promised, regardless of whether interest rates rise or fall. Due primarily to declining interest rates in Q1-Q3, the value of the guaranteed pensions increased by DKK 96.9bn. ATP's hedging portfolio, which is designed to protect pensions against such fluctuations, generated a positive return after tax of DKK 94.8bn, and the hedging strategy was thus successful. All in all, hedging activity results (defined as the difference between provisions for guaranteed pensions and the post-tax hedging results) were negative by DKK 2.1bn, corresponding to 0.3 per cent of the guaranteed pensions of 705.6bn, which is considered satisfactory.

ATP's total portfolio return (from both the return-seeking investment portfolio and the hedging portfolio stood) at DKK 124,4 bn YTD, equivalent to 17,6 per cent.

Net results for the period – increased life expectancy

The results for the first three quarters of the year totalled DKK 8.8bn before the life expectancy update. As a consequence of the life expectancy of the Danish population increasing more than expected, in Q2, ATP transferred DKK 9.9bn from the bonus potential to the pension guarantees and as a result of this transfer, the net result for the period was negative DKK 1.1bn.

At the end of Q3 2016, the bonus potential – ATP's reserves – amounted to DKK 100.1bn, equivalent to a bonus rate of 14.2 per cent (defined as the ratio between the bonus potential and the pension liabilities). ATP's assets amounted to DKK 806bn.

With the cost savings realised in the first three quarters of the year, an expense ratio for administration expenses of DKK 50 per member is expected for 2016 overall. In 2015, the expense ratio was DKK 57 per member.

Financial highlights of the ATP Group

DKKm	Q3 2016	Q1-Q3 2016	Q1-Q3 2015	Full year 2015
Investment				
Investment return	5,680	12,534	11,229	16,548
Expenses	(193)	(601)	(590)	(837)
Tax on pension savings returns and income tax	(838)	(1,577)	(1,565)	(2,259)
Investment activity results	4,649	10,356	9,074	13,452
Hedging				
Change in guaranteed benefits due to discount rate and maturity reduction	(3,901)	(96,867)	(3,486)	4,498
Return in hedging portfolio etc.	2,944	111,895	1,848	(7,992)
Tax on pension savings returns	(450)	(17,120)	(283)	1,223
Hedging activity results	(1,407)	(2,092)	(1,921)	(2,271)
Investment and hedging activity results	3,242	8,264	7,153	11,181
Pension				
Contributions	2,375	7,142	6,781	9,055
Pension benefits	(3,851)	(11,549)	(10,883)	(14,566)
Change in guaranteed benefits due to contributions and payments etc.	1,511	5,133	4,986	6,694
Administration expenses, ATP Pension	(58)	(184)	(211)	(283)
Other items	1	1	8	149
Pension activity results before life expectancy update	(22)	543	681	1,049
Business processing, external parties				
Business processing income, external parties	389	1,033	906	1,251
Business processing expenses, external parties	(385)	(1,007)	(867)	(1,229)
Income tax	0	0	0	(1)
Business processing results, external parties	4	26	39	21
Results before bonus and life expectancy update	3,224	8,833	7,873	12,251
Life expectancy update	0	(9,901)	(3,723)	(3,723)
Bonus allowance	0	0	0	(3,017)
Net results for the period	3,224	(1,068)	4,150	5,511
Guaranteed pensions	705,607	705,607	610,641	603,972
Bonus potential	100,060	100,060	99,881	101,242
Net assets	805,667	805,667	710,522	705,214

Return ratios				
Investment return relative to bonus potential (before expenses and tax), per cent	5.8	12.3	11.6	17.2
Investment return relative to bonus potential (after expenses and tax), per cent	4.7	10.1	9.4	13.9

Facts about ATP

ATP is a mandatory pension scheme with 5,025,000 members. At the end of Q3 2016, 997,000 pensioners were receiving ATP Lifelong Pension. ATP paid out DKK 11.5bn in pension benefits in the first three quarters of the year. For 50 per cent of Danish old-age pensioners, ATP Lifelong Pension is their only source of pension income other than their state-funded old-age pension. The full ATP Lifelong Pension for a 65-year-old pensioner is DKK 23,900, equivalent to 33 per cent of the basic amount of the state-funded old-age pension.

For further information, please contact:

Stephan Ghisler-Solvang, Head of Press, +45 6122 9392, stg@atp.dk

Investment portfolio

To maintain a robust investment portfolio with a stable return and the greatest possible independence from cyclical variations, investment decisions are managed through a strategy of risk diversification.

All investments consist of a number of basic building blocks – risk factors – which can be combined in various ways to achieve a portfolio with an appropriate level of risk diversification.

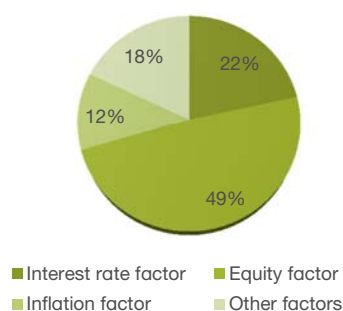
ATP determines the risk associated with each investment on the basis of up to four different risk factors, depending on the types of risk to which the investment is exposed, and the investments are composed to achieve an appropriate level of risk diversification. The aim is to produce a stable return with the greatest possible independence from cyclical variations.

Therefore, ATP's new investment strategy focuses on the underlying risks of an investment rather than its asset class.

The four risk factors are: 'Equity factor', 'Interest rate factor', 'Inflation factor' and 'Other factors'.

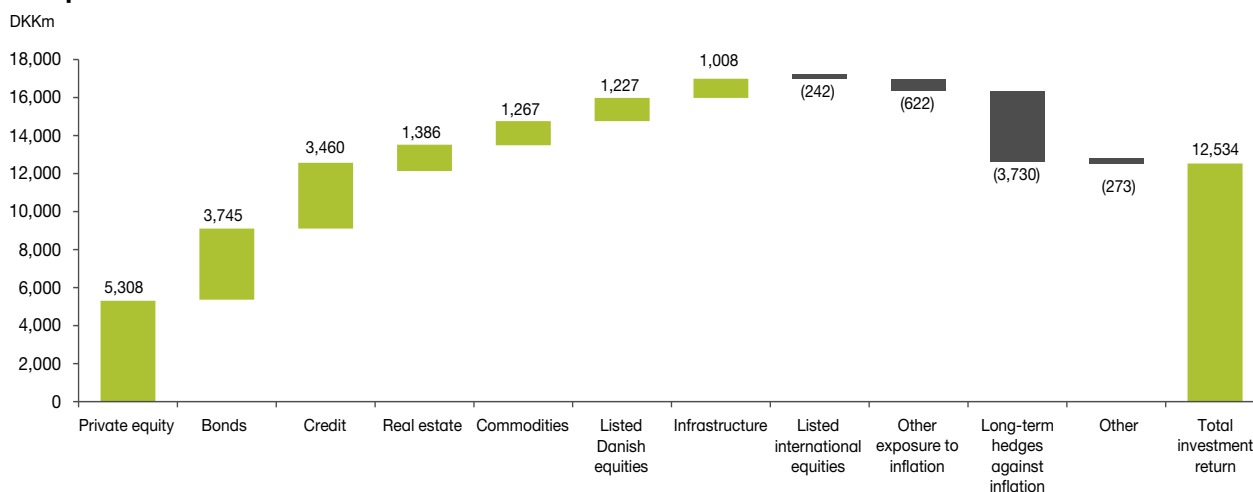
The factor investing approach informs investment decisions and this approach allows analysis and comparison of investments without reference to asset type. The factor investing approach is primarily an internal risk management tool, and ATP will continue to refer to the traditional asset classes in its return reporting. For further information on the factor investing approach, please refer to the article 'New portfolio construction' in ATP's Annual Report 2015.

Average risk allocation of the investment portfolio¹ in Q1-Q3 2016



¹ The average risk allocation for the first three quarters of 2016 and the Supervisory Board's guideline are exclusive of the Supervisory Board's long-term strategies against inflation increases.

Composition of investment return for Q1-Q3 2016



Note: 'Total investment return' constitutes 12.3 per cent of the bonus potential before tax and expenses.