

ATP's lifelong guarantees are intact in a quarter with unrest in the financial markets

The war in Ukraine has had a clear impact on the 1st quarter of the year. In a market with falling stock prices, rising interest rates and notably higher inflation, ATP's business model demonstrated its robustness, and the members' guarantees thus remain intact despite a negative investment result.

The 1st quarter of the year was dominated by rising interest rates both in the United States and Europe, capital losses on the global equity markets, rising commodity prices and higher inflation. The development was greatly impacted by a large amount of geopolitical turmoil following the war in Ukraine, which increased uncertainty on the financial markets.

"It has been a tough period in the financial markets since the start of the year. The war in Ukraine has shaken all of Europe and has definitely had a negative impact on stock prices and has sent interest rates higher. It has been hard to generate good investments results in the 1st quarter. As a long-term investor, we are focused on generating strong results over time, and despite the tough start to the year, over the past five years ATP has generated returns on its bonus potential of 18.8 per cent each year. And if we look back at the record results of the past three years, it is not surprising that some returns have to be relinquished," says Bo Foged, CEO of ATP.

Basic security is in place

ATP's pension product is a guaranteed product that contributes to its members' basic financial security in their old age. ATP is paid out as a life-long benefit, and therefore supplements the state pension throughout the entirety of a member's retirement. The benefit is particularly important for those members where ATP Livslang Pension (Lifelong Pension) is the only pension income besides the state pension, which is currently the case for around 40 per cent of all pensioners.

The value of the guaranteed pensions decreased during the 1st quarter of the year by DKK 66.8bn, mainly due to rising interest rates. Correspondingly, the hedging portfolio generated negative returns (after tax) of DKK 69.2bn. The value of the hedging portfolio thus fell as the value of the pension guarantees fell, and the hedging worked as intended. The overall result of Hedging amounted to DKK (3.6bn), which corresponds to 0.5 per cent of the value of the guaranteed benefits, which at the end of the 1st quarter amounted to DKK 719.6bn.

The investment portfolio generated returns of DKK (20.7bn), which before tax amount to (13.3) per cent of the bonus potential. It was particularly government and mortgage bonds and listed Danish and international equities that pulled the result down, while investments in inflation-related instruments made positive contributions to the return. The bonus rate, which is an expression of the members' overall buffer, amounted to 19 per cent at the end of the 1st quarter compared to 20 per cent at the start of 2022, and this is thus a modest decrease despite the negative investment return.

"Our most important task is to contribute to ensuring the basic security of Danes. ATP's 5.4 million members need to know that the payments they make to us are worth it. We guarantee our members that they will receive a certain benefit from us when they are pensioners - and that guarantee is not threatened by a difficult quarter. ATP's finances are very strong, and the political support for our new business model shows that we have now begun to add a little more risk to our investments, and thus we expect to generate higher returns over time, and this will particularly benefit the pensioners of the future," says Bo Foged.

New business model in the air:

Life annuity with market exposure

As something new, from 1 January 2022, 20 per cent of the contribution for members with more than 15 years to go until they reach the retirement age go to a life annuity with market exposure and will be invested in a special market return portfolio. The aim here is to achieve higher long-term returns for this part of the contribution, and thus a higher overall pension when reaching the retirement age. In the 1st quarter, the portfolio generated negative returns of DKK 1 million due to the general market developments.

Results for the period and assets

The result for the 1st quarter of the year amounted to DKK (20.9bn). The bonus potential (ATP's reserves) amounted to DKK 138.5bn at the end of the 1st quarter. Thus, ATP still has a solid capitalisation with an excess cover of 19 per cent in relation to the guaranteed pensions of DKK 719.6bn. ATP member net assets amounted to DKK 858.5bn.

ATP is a mandatory pension scheme with 5,439,000 members. During the 1st quarter of the year, ATP's members contributed DKK 2.9bn. By the end of the 1st quarter of 2022, 1,037,600 pensioners were receiving ATP Livslang Pension (Lifelong Pension). During the 1st quarter, ATP paid out DKK 4.6bn 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 state pension. A full annual ATP Livslang Pension (Lifelong Pension) amounts to DKK 27,800 for a 67-year-old, which is 35 per cent of the state pension.

Financial Highlights and Ratios for the ATP Group

DKKm	Q1 2022	Q1 2021	The year 2021
Investment activities			
Investment return	(20,744)	(972)	49,620
Expenses	(256)	(225)	(952)
Tax on pension savings returns and income tax	2,962	116	(7,291)
Investment activity results	(18,038)	(1,081)	41,378
Hedging activities			
Guaranteed benefits (GB)			
Change in GB due to interest rates and shorter duration	66,792	50,551	48,632
Return in hedging portfolio	(81,662)	(59,692)	(56,187)
Tax on pension savings returns	12,494	9,133	8,597
Results of Hedging of guaranteed benefits	(2,376)	(8)	1,042
Life annuity with market exposure (LAWMA)			
Change in LAWMA due to returns	1	-	-
Return on market return portfolio	(1)	-	-
Other items	0	-	-
Result of life annuity with market exposure	0	-	-
Change due to bonus	(1,230)	(1,567)	(5,508)
Hedging activity results	(3,605)	(1,575)	(4,466)
Results from Investment and Hedging	(21,643)	(2,656)	36,912
Pension activities			
Contributions	2,945	2,850	11,497
Pension benefits	(4,556)	(4,371)	(17,260)
Changes to pensions resulting from contributions and payments	2,371	2,220	8,200
Administration activity expense	(55)	(53)	(213)
Other items	2	2	7
Pension activity results before life expectancy update	707	648	2,231
Business processing, external parties			
Income	638	674	2,498
Expenses	(586)	(608)	(2,497)
Result from business processing, external parties	51	66	0
Result before bonus allowances and life expectancy update	(20,885)	(1,942)	39,143
Life expectancy update	-	-	4,796
Bonus addition for the period	-	-	(30,391)
The result for the period	(20,885)	(1,942)	13,548
Guaranteed benefits	719,648	762,385	787,809
Life annuity with market exposure	277	-	-
Bonus potential	138,541	144,216	159,537
Net assets	858,466	906,601	947,346

Ratios for ATP

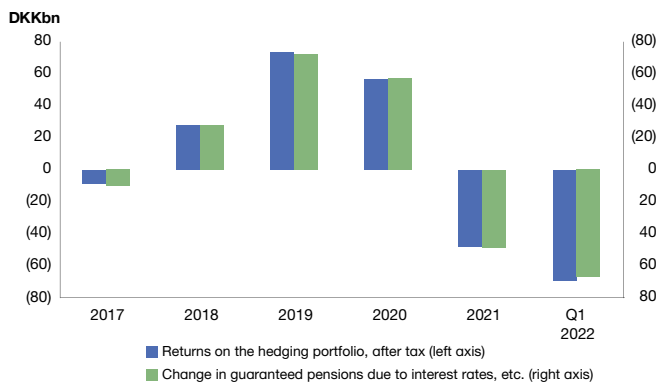
	Q1 2022	1-year	3-year ³	5-year ³
Return ratios				
Return on investment before tax relative to Bonus potential, per cent ¹	(13.3)	17.9	19.5	18.8
Return per average risk krone ²	(0.4)	0.5	0.5	0.5
The Danish Financial Supervisory Authority's return ratios (N1), per cent	(10.9)	(5.6)	1.7	4.0
Return ratios for life annuity with market exposure, per cent	(0.1)	-	-	-
Value growth for members, per cent	(2.7)	2.8	5.0	5.1

¹ Return on Investments is calculated as a daily time weighted return on the bonus potential. The investment portfolio follows a risk-based investment 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 more funds than the bonus potential. The market value at the end of the 1st quarter of 2022 was DKK 402.4bn. The market value of the investment portfolio also includes financial derivatives of which the market value will typically be low, zero or negative.

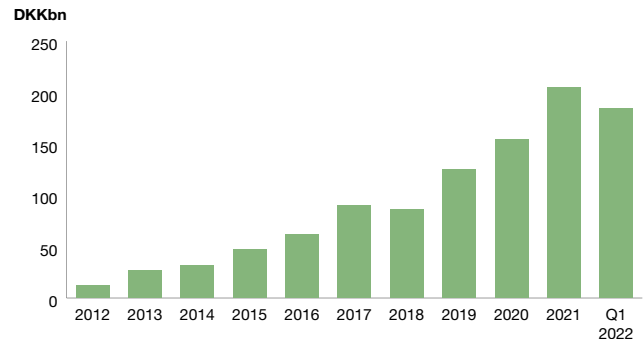
² Return per average risk krone is calculated as the annualised accumulated return for the period compared to the average risk for the same period. The risk result is the Expected Shortfall.

³ Average year over the period

Hedging protects guaranteed pensions, 2017 - Q1 2022



Historical accumulated returns on the investment portfolio before tax, 2012 - Q1 2022



The 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 core element of ATP's investment strategy is to adjust the investment portfolio's market risk on an ongoing basis based on the size of the bonus potential, so that ATP's risks are always in line with the specified risk profile.

To maintain a robust investment portfolio with a stable return and the greatest possible independence from cyclical variations, investment decisions are informed by a strate-

gy of risk diversification. ATP allocates the risk associated with each investment on the basis of four different risk factors, depending on the types of risk to which the investment is exposed. Moreover, the investments are composed to achieve the desired level of risk diversification. The four risk factors are: 'Equity factor', 'Interest rate factor', 'Inflation factor', and 'Other factors'.

Dividing the risk into risk factors provides the framework for the composition of 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 supplemental information for ATP's annual report for 2021, which can be found at www.atp.dk

Adjustment of the business model from 2022

In 2020, the Supervisory Board approved two adjustments to ATP's business model - it involved an adjustment to the hedging strategy concerning the saved up funds and an adjustment concerning future contribution payments called 'Life annuity with market exposure (LAWMA)'. On 18 May 2021, the Danish Parliament adopted the amendments to the ATP Act with a broad majority, which allows for the implementation of these changes. Life annuity with market exposure has been implemented from 2022, while the adjustment to the hedging strategy is expected to be implemented from 2023.

The overall principles of ATP's business model have been preserved from 2022. 80 per cent of the members' ATP contributions will still be used to accrue pensions (the guarantee contribution). The remaining 20 per cent will still be invested in order to be able to increase members' pensions with a bonus (the bonus contribution). The guarantee contribution of 80 per cent is still guaranteed in terms of the projections for life expectancy. From 2022, the 80 per cent are split into two portions for the members who have more than 15 years to go until retirement.

- 60 per cent are still invested with a low risk profile (the interest contribution)
- 20 per cent are invested with a higher risk profile (the market contribution)

The pension that is accrued from the market contribution will be based on the return generated by investing with a higher risk profile. The pensions accrued from these contributions will therefore fluctuate, depending on the returns achieved. The pensions accrued from the interest contribution will, as today, be based on a market rate with a high degree of security.

Investments on behalf of the market contribution (after the introduction of 'Life annuity with market exposure') are all under the market return portfolio, which is intended to generate a higher pension via market exposure.

You can read more about the adjustment of ATP's business model in ATP's annual report for 2021, which can be found at www.atp.dk

