

# Falling equity prices and rising interest rates challenge ATP's investment result - but pensions are unchanged

In a market with falling equity prices, rising interest rates and notably higher inflation, ATP's hedging strategy demonstrated its robustness. The members' lifelong guarantees thus remain intact despite a negative investment result.

The first three quarters of the year were characterised by great turmoil in the financial markets. Rising interest rates, falling equity prices and high inflation have dominated developments since the start of the year and the war in Ukraine has also had a strong impact on energy prices. Together, this has resulted in a very negative environment for investment markets that has turned out to be unusually difficult to generate positive returns in.

*"We are in an extreme situation. Europa is hard hit from multiple fronts - sky high energy prices, an inflation chock, dramatic capital losses in the equity markets and rising interest rates. When interest rates rise as quickly as they have in 2022, this gives a very negative investment result. It has been going well for many years, but now everything is turned upside down and we can clearly feel that," says Martin Præstegaard, ATP's CEO.*

## The importance of the guarantees is growing

ATP Livslang Pension (Lifelong Pension) is a guaranteed product that contributes to creating basic security for 5.5 million members. For approximately 40 per cent of members, the ATP pension is their only pension beyond the state pension, and for these members, the integrated guarantee is particularly important.

*"ATP's most important task is to - no matter what market developments happen - be able to pay the pensions that we have promised our members. And we are keeping that promise. Even though we have had major losses so far in 2022, our hedging strategy ensures that we can always pay what we have guaranteed. That guarantee is an important characteristic of the ATP pension, and the guarantee in itself is presumably even more valuable at a time when many pensioners in Denmark are seeing their other pension payouts decreasing," says Martin Præstegaard.*

The value of the guaranteed pensions fell by DKK 196.3bn in the first three quarters of the year due to rising interest

rates. Correspondingly, the hedging portfolio generated negative returns (after tax) of DKK 202.8bn. The value of the hedging portfolio thus fell at the same rate as the value of the pension guarantees fell. The result from hedging the guaranteed pensions thus amounted to DKK (6.5bn), which is partly because the hedging cannot be completely precise. The overall result of Hedging amounted to 1.5 per cent of the value of the guaranteed pensions, which at the end of the third quarter was DKK 581.7bn.

The investment portfolio generated a return of DKK (72.8bn). 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.

## A new business model is to generate higher returns and pensions in the long run

As something new, from this year 20 per cent of the members' contributions to ATP will go to a life annuity with market exposure and be invested in a special market return portfolio. This applies to the group of members with more than 15 years to go until retirement. The aim here is to achieve higher long-term returns for this part of the contributions and thereby a higher overall pension when reaching the retirement age. In the first three quarters, the portfolio generated a negative return of DKK 0.1bn due to the general market developments.

## Results for the period and assets

The result for the first three quarters were DKK (65.2bn). The bonus potential (ATP's reserves) were at DKK 94.2bn at the end of the third quarter.

The bonus capacity, which is an expression of the members' overall buffer, is at 16.2 per cent in line with the average since 2012 (16.8 per cent). ATP thus had a solid bonus capacity in relation to its pension liabilities of DKK 582.7bn. Net assets amounted to DKK 676.9bn.

---

*ATP is a mandatory pension scheme with 5,492,000 members. During the first three quarters of the year, ATP's members contributed DKK 8.9bn. By the end of the third quarter of 2022, 1,027,450 pensioners were receiving ATP Livslang Pension (Lifelong Pension). During the first three quarters of the year, ATP paid out DKK 13.5bn 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 for the ATP Group

DKKkm	Q1-Q3 2022	Q3 2022	Q1-Q3 2021	FY 2021
<b>Investment activities</b>				
Investment return	(72,759)	(15,185)	33,019	49,620
Expenses	(661)	(219)	(693)	(952)
Tax on pension savings returns and income tax	10,645	2,141	(5,038)	(7,291)
<b>Investment activity results</b>	<b>(62,776)</b>	<b>(13,264)</b>	<b>27,289</b>	<b>41,378</b>
<b>Hedging activities</b>				
<b>Guaranteed pensions</b>				
Change due to interest rates and shorter duration	196,263	39,520	55,195	48,632
Return in hedging portfolio	(239,391)	(48,244)	(64,702)	(56,187)
Tax on pension savings returns	36,627	7,381	9,899	8,597
<b>Result of hedging of guaranteed pensions</b>	<b>(6,501)</b>	<b>(1,343)</b>	<b>392</b>	<b>1,042</b>
<b>Life annuity with market exposure (LAWMA)</b>				
Change in LAWMA due to returns	99	53	-	-
Return on market return portfolio	(117)	(62)	-	-
Other items	18	9	-	-
<b>Result of life annuity with market exposure</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>
Change due to yield curve break	(2,363)	(470)	(4,149)	(5,508)
<b>Hedging activity results</b>	<b>(8,864)</b>	<b>(1,813)</b>	<b>(3,757)</b>	<b>(4,466)</b>
<b>Results from Investment and Hedging</b>	<b>(71,640)</b>	<b>(15,077)</b>	<b>23,532</b>	<b>36,912</b>
<b>Pension activities</b>				
Contributions	8,905	2,980	8,551	11,497
Pension benefits	(13,473)	(4,457)	(12,920)	(17,260)
Changes to pensions resulting from contributions and payments	7,351	2,419	6,277	8,200
Administration activity expense	(156)	(50)	(152)	(213)
Other items	7	3	5	7
<b>Pension activity results before life expectancy update</b>	<b>2,634</b>	<b>895</b>	<b>1,760</b>	<b>2,231</b>
<b>Business processing, external parties</b>				
Income	1,870	631	1,838	2,498
Expenses	(1,893)	(672)	(1,851)	(2,497)
<b>Result from business processing, external parties</b>	<b>(23)</b>	<b>(41)</b>	<b>(12)</b>	<b>0</b>
<b>Result before bonus allowances and life expectancy update</b>	<b>(69,029)</b>	<b>(14,223)</b>	<b>25,280</b>	<b>39,143</b>
Life expectancy update	3,805	0	4,796	4,796
Bonus addition for the period	-	-	-	(30,391)
<b>The result for the period</b>	<b>(65,224)</b>	<b>(14,223)</b>	<b>30,076</b>	<b>13,548</b>
<b>Net assets</b>				
Guaranteed pensions	581,746	581,746	751,470	787,809
Life annuity with market exposure	959	959	-	-
<b>Pension liabilities, total</b>	<b>582,705</b>	<b>582,705</b>	<b>751,470</b>	<b>787,809</b>
Bonus potential	94,162	94,162	176,085	159,537
<b>Net assets</b>	<b>676,867</b>	<b>676,867</b>	<b>927,555</b>	<b>947,346</b>

## Key ratios for the ATP Group

	Q1-Q3 2022	Q3 2021	Q1-Q3 2021	FY 2021
<b>Bonus capacity</b>	16.2	16.2	23.4	20.3
<b>Return ratios</b>				
Return on investment before tax relative to the bonus potential in per cent <sup>1</sup>	(45.2)	(39.5)	(2.1)	5.3
Return per average risk krone <sup>2</sup>	(2.1)	(1.1)	0.1	0.2
Return on market return portfolio, before tax in per cent <sup>3</sup>	(18.4)	-	-	-
The Danish Financial Supervisory Authority's ratios related to guaranteed pensions and bonus potential (N1), in per cent	(33.2)	(30.8)	(11.3)	(1.9)
The Danish Financial Supervisory Authority's ratios related to life annuity with market exposure (N2), in per cent	(22.0)	-	-	-
Value creation for members, in per cent	(8.9)	(6.5)	1.8	3.0

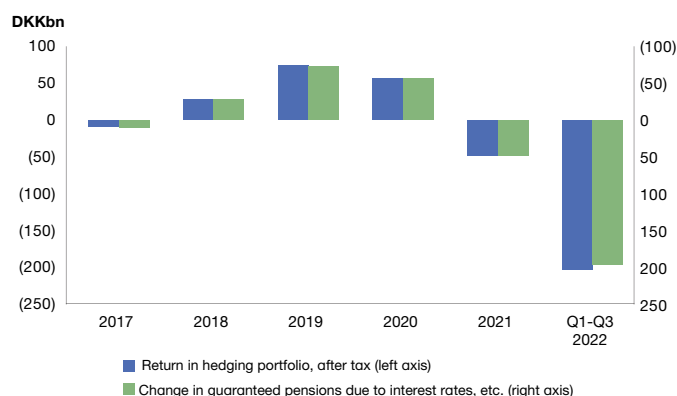
<sup>1</sup> Return on Investments is calculated as a daily time weighted return on the bonus potential. The investment portfolio follows a risk-based investment approach, the focus of which is on risk rather than on the amount of DKK invested. The investment portfolio, as a general rule, consists of 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 third quarter of 2022 was DKK 304.3bn. The market value of the investment portfolio also includes financial derivatives of which the market value will typically be low, zero or negative.

<sup>2</sup> 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.

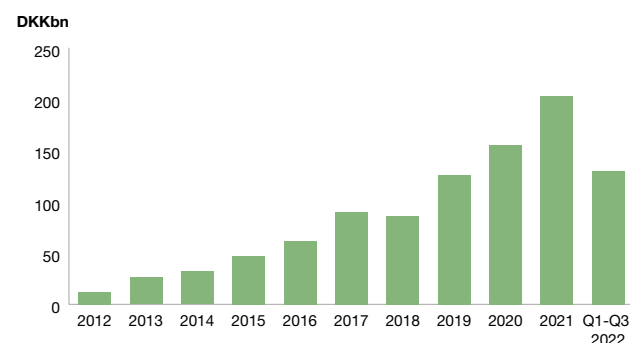
<sup>3</sup> Return on the market return portfolio is calculated as a daily time-weighted return.

<sup>4</sup> Average year over the period

### Hedging protects guaranteed pensions 2017 - 3rd quarter 2022



### Historical accumulated returns on the investment portfolio before tax - 2012 - 3rd quarter 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 2021 annual report which can be found at [www.atp.dk](http://www.atp.dk).