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Quarterly Announcement Q1 2019
30 April 2019

ATP posts historic DKK 20bn return for the first quarter of the year

The first quarter of the year was dominated by declining interest rates, both in the US and Europe, and by upticks in global equity markets. The investment portfolio generated a return of DKK 20bn before costs and taxes, equivalent to a rate of return of 21.7 per cent relative to the bonus potential.

Primarily state and mortgage bonds, Danish and foreign listed equities contributed to the historically high return for the quarter with DKK 7.4bn, DKK 3.7bn, and DKK 4.9bn, respectively.

”We have realised an unusually good result for the first quarter of 2019 and delivered a very high return, which is highly satisfactory. With this having been said, we can also look forward to generally lower investment returns in the years to come and at the same time we are seeing greater fluctuations between quarters. We shall therefore maintain a disciplined approach to our portfolio construction and risk management in order that we may also create satisfactory results in the longer term,” says Acting ATP CEO Bo Foged.

The previous five years have realised average investment portfolio returns of 3.9 per cent per quarter. The investment portfolio has realised positive returns in 17 of the previous 20 quarters.

Hedging protects pension guarantees
Hedging of the guaranteed pensions is designed to ensure that members receive the pensions promised, regardless of whether interest rates rise or fall. Due to moderate interest rate drops for Danish and European state bonds with long residual maturity, the value of guaranteed pensions increased in Q1. Similarly, the hedging portfolio realised a positive return. All in all, hedging gave an overall result of DKK 40m and therefore worked as intended.

Net profit for the period
The Q1 result was DKK 17.1bn. At the end of Q1 2019, the bonus potential – ATP’s free reserves – totalled DKK 109bn, equal to a 15.0 per cent over-hedging relative to guaranteed pensions of DKK 728bn. ATP’s net assets amounted to DKK 838bn.

ATP is given a new task, managing Obligatorisk Pensionsordning (Mandatory Pension Scheme)
In March, the Danish Parliament passed a mandatory pension scheme for citizens on transfer income. The scheme enters into force in 2020 and is to be managed by ATP. It will initially cover more than one million citizens, who will be making mandatory savings while on transfer income.

“This is an important assignment, and we are proud to have been selected to handle it. ATP exists to secure basic financial security in Denmark, and Obligatorisk Pensionsordning (Mandatory Pension Scheme) is precisely about that,” says Acting ATP CEO Bo Foged.

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Facts about ATP
ATP is a mandatory pension scheme with 5,206,000 members. ATP members contributed DKK 2.5bn in the first quarter. At the end of Q1 2019, 1,057,000 pensioners were receiving ATP Livslang Pension (Lifelong Pension). During Q1, ATP paid out DKK 4.3bn 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-funded old age pension. The full ATP Livslang Pension for a 65½-year-old is DKK 24,500. This is equivalent to 32 per cent of the basic amount of the state-funded old-age basic pension.

Financial highlights and ratios for the ATP Group

DKKm	Q1 2019	Q1 2018	FY 2018
Investment			
Investment return	19,964	(1,132)	(3,714)
Expenses	(238)	(213)	(953)
Tax on pension savings returns and corporate income tax	(2,936)	223	949
Investment activity results	**16,790**	**(1,122)**	**(3,718)**
Hedging activities			
Change in guaranteed pensions due to discount rate and maturity reduction[1]	(36,225)	(3,260)	(27,866)
Return in hedging portfolio	43,947	3,434	32,932
Tax on pension savings returns	(6,724)	(526)	(5,039)
Results of hedging of pension liabilities	**998**	**(352)**	**27**
Change in guaranteed pensions due to yield curve break[2]	(958)	(682)	(3,106)
Hedging activity results	**40**	**(1,034)**	**(3,079)**
Investment and hedging activity results	**16,830**	**(2,156)**	**(6,797)**
Pension			
Contributions	2,456	2,416	9,871
Pension benefits	(4,325)	(4,209)	(16,878)
Change in guaranteed pensions due to contributions and payouts	2,182	2,189	8,505
Administration expenses	(47)	(44)	(197)
Other items	2	3	9
Pension activity results before life expectancy update	**268**	**355**	**1,310**
Business processing, external parties			
Income	606	602	2,458
Expenses	(579)	(588)	(2,450)
Corporate income tax	0	0	(1)
Business processing results, external parties	**26**	**14**	**7**
Results before bonus allowances and life expectancy update	**17,124**	**(1,787)**	**(5,480)**
Life expectancy update	0	0	(20,025)
Bonus addition for the period	0	0	0
Net profit for the period	**17,124**	**(1,787)**	**(25,505)**
Guaranteed pensions	728,374	652,634	693,373
Bonus potential	109,187	115,882	92,086
Net assets	**837,560**	**768,516**	**785,459**

Return ratios	**1 quarter**	**1 year**	**3 years**	**5 years**
Return on investment before expenses and tax relative to the bonus potential[3]	21.7	17.0	20.3	15.8
Result before updating life expectancy and bonus relative to guaranteed benefits in per cent	2.4	1.9	2.3	1.8
Risk-adjusted return [4]	2.5	0.5	0.7	0.6

[1] Before effect of yield curve break

[2] ‘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.

[3]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 (market value Q1-end 2019 of DKK 333bn) than the bonus potential, but within the same risk budget.

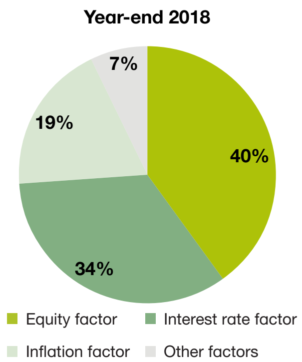
[4] Risk-adjusted return is a return measure similar to Sharpe ratio which expresses the relation between the actual return and the expected market risk of the portfolio, i.e. a measurement to show whether the risk utilisation is efficient Expected market risk modelling is based on historic observations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

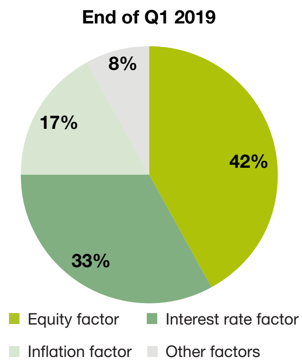
Investment portfolio

To maintain a robust investment portfolio with a stable return and the greatest possible independence from cyclical variations, investment decisions are informed by a strategy of risk diversification. For the purposes of risk measurement and diversification, ATP allocates the risk spread associated with each investment on the basis of four different risk factors, depending on the types of risk to which the investment is exposed. The four risk factors are: 'Equity factor', 'Interest rate factor', 'Inflation factor', and 'Other factors'.

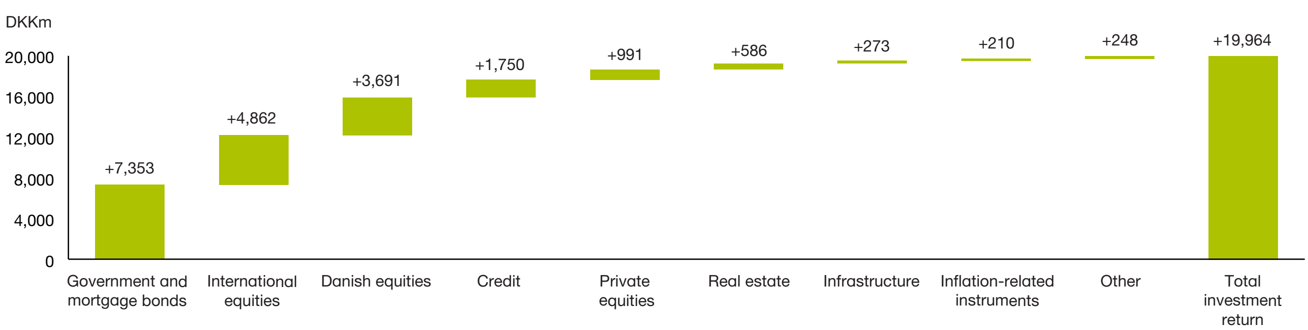
The factor framework gives a shared risk understanding, enabling uniform management of all investment activities and a comparison of returns and risks across asset classes. The approach produces no absolute truths, but it does create a framework for the composition of our investments. In the returns report, ATP 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

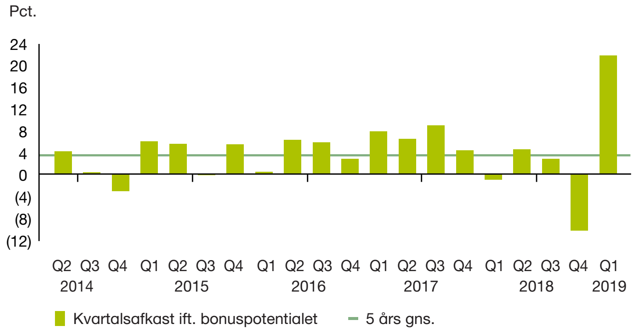




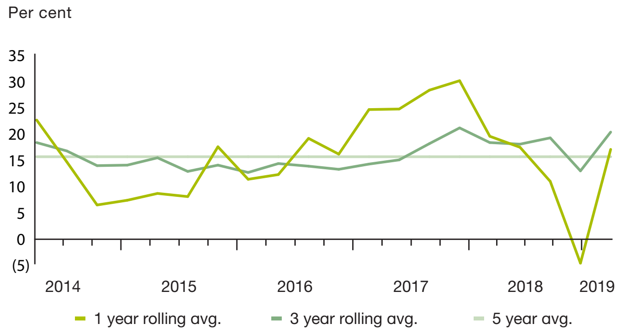
Composition of investment return, Q1 2019



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