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Quarterly announcement Q1-Q3 2018
30 October 2018

ATP achieves a return of DKK 6.9bn in the first three quarters of 2018

The first three quarters of the year were characterised by interest rate increases in the USA and by various trends in the global equity markets. The investment portfolio generated a return of DKK 6.9bn, corresponding to 5.8 per cent relative to the bonus potential.

"Our balanced investment portfolio has generated a stable return in a difficult period, and we are pleased with the contribution from the illiquid part of our portfolio. The return was mainly driven by private equity, real estate, infrastructure and listed Danish equities, whereas investments in US government bonds contributed negatively to the return. We continue to take risks based on a disciplined approach to both portfolio construction and risk management as a way of ensuring that we create satisfactory long-term results despite the low and uncertain return environment," ATP CEO Christian Hyldahl says.

The previous five years have realised average investment portfolio returns of 3.8 per cent per quarter. Investment portfolio returns have been positive in 17 out of the last 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 declines in yields on Danish and European long-dated government bonds, the value of guaranteed pensions increased in the first three quarters. Similarly, the hedging portfolio produced a positive return. All in all, hedging activity results were negative by DKK 2.0bn, corresponding to less than 0.3 per cent of the guaranteed pensions. The hedging strategy was thus successful.

Profit for the period
The result for the first three quarters of the year before the life expectancy update totalled DKK 4.4bn. The long-term forecast of life expectancy was adjusted by DKK 20bn at the end of H1. Hence, the result for the first three quarters ended at DKK -15.6bn. The bonus potential – ATP's reserves – was DKK 102bn at the end of Q3 2018, corresponding to a surplus of 15.1 per cent relative to the guaranteed pensions of DKK 677bn. ATP's net assets amounted to DKK 779bn in total.

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Facts about ATP
ATP is a mandatory pension scheme with 5,173,000 members. At the end of Q3 2018, 1,055,000 pensioners were receiving ATP Livslang Pension. In Q1-Q3, ATP paid out DKK 12.6bn in pension and lump-sum benefits. For around 40 per cent of Danish old-age pensioners, the ATP pension is their only source of pension income besides the state-funded old-age pension. The full annual ATP Livslang Pension for a 65-year-old is DKK 23,600, equivalent to 32 per cent of the basic amount of the state-funded old-age pension.

Financial highlights and ratios for the ATP Group

DKKm	Q3 2018	Q1-Q3 2018	Q1-Q3 2017	FY 2017
Investment				
Investment return	2,845	6,934	24,603	29,737
Expenses	(240)	(678)	(621)	(858)
Tax on pension savings returns and corporate income tax	(442)	(914)	(3,659)	(4,399)
Investment activity results	**2,163**	**5,342**	**20,323**	**24,480**
Hedging				
Change in guaranteed pensions due to discount rate and maturity reduction[1]	5,440	(10,561)	17,731	10,032
Return in hedging portfolio	(5,742)	12,763	(19,387)	(10,089)
Tax on pension savings returns	879	(1,952)	2,966	1,544
Results of hedging of pension liabilities	**577**	**250**	**1,310**	**1,487**
Change in guaranteed pensions due to yield curve break[2]	(844)	(2,275)	(2,268)	(2,993)
Hedging activity results	**(267)**	**(2,025)**	**(958)**	**(1,506)**
Investment and hedging activity results	**1,896**	**3,317**	**19,365**	**22,974**
Pension				
Contributions	2,441	7,340	7,189	9,703
Pension benefits	(4,218)	(12,627)	(12,016)	(16,075)
Change in guaranteed pensions due to contributions and payouts	2,030	6,509	6,379	8,289
Administration expenses	(47)	(147)	(144)	(191)
Other items	1	6	7	8
Pension activity results before life expectancy update	**207**	**1,081**	**1,415**	**1,734**
Business processing, external parties				
Income	590	1,859	1,482	2,042
Expenses	(597)	(1,865)	(1,477)	(2,033)
Income tax	0	0	0	0
Business processing results, external parties	**(7)**	**(6)**	**5**	**9**
Results before bonus allowance and life expectancy update	**2,096**	**4,392**	**20,785**	**24,717**
Life expectancy update	0	(20,025)	(1,006)	(1,006)
Bonus allowance for the period	0	0	0	(6,406)
Net results for the period	**2,096**	**(15,633)**	**19,779**	**17,305**
Guaranteed pensions	677,233	677,233	637,961	650,881
Bonus potential	101,984	101,984	120,186	117,695
Net assets	**779,217**	**779,217**	**758,147**	**768,576**

Return ratios	5 years	3 years	1 year	Q1-Q3 2018
Investment return (before expenses and tax) relative to bonus potential, per cent[3]	15.3	19.2	10.9	5.8
Results before life expectancy update and bonus allowance relative to guaranteed pensions, per cent	1.9	2.1	0.9	0.6
Risk-adjusted return[4]	0.7	0.7	0.4	0.3

[1] Before effect of yield curve break.

[2] 'Yield curve break' is the point on the yield curve at 40 years where the guaranteed pensions shift from being discounted by a fixed rate to being discounted by a market rate.

[3] The investment portfolio pursues a factor (risk-based) investing approach, the focus of which is on risk rather than on the amount of DKK invested. The investment portfolio generally consists of funds from the free reserves – the bonus potential. Funds not tied up in the hedging portfolio as a result of the use of financial derivatives are available for 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 at the end of Q3 2018 of DKK 313,1bn) than the bonus potential, but within the same risk budget.

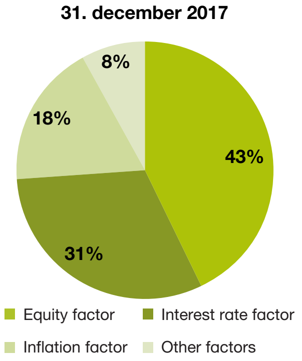
[4] Risk-adjusted return is a Sharpe ratio-based return target, expressing the ratio of realised return to the expected market risk in the portfolio, i.e. a measure of whether the utilisation of risk is effective. The modelling of expected market risk is based on historical observations, dating back to the beginning of 2008.

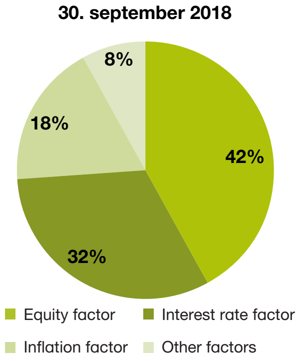
Investment portfolio

To maintain a robust and diversified investment portfolio with a stable return and the greatest possible independence from cyclical variations, investment decisions are informed by a strategy of risk diversification. To measure the risk and 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. The four risk factors are: 'Equity factor', 'Interest rate factor', 'Inflation factor' and 'Other factors'.

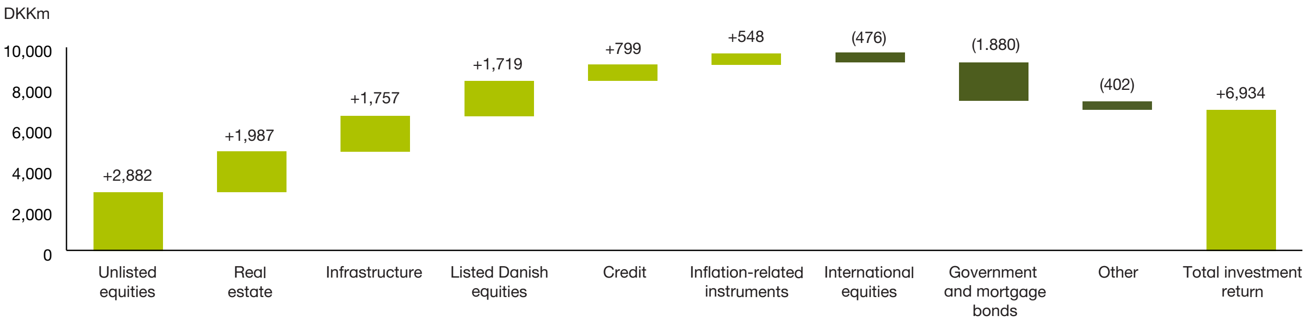
The factor framework provides a shared understanding of risk, which enables uniform management of all investment activities and comparability of risk and return across asset classes. The approach produces no absolute truths, but it does create a framework for the composition of investments. In the returns report, ATP refers to the traditional asset classes. You can read more about the factor investing approach in the article 'Factor investing approach and alternative illiquid investments' in the ATP Group's annual report for 2017.

Risk allocation in the investment portfolio

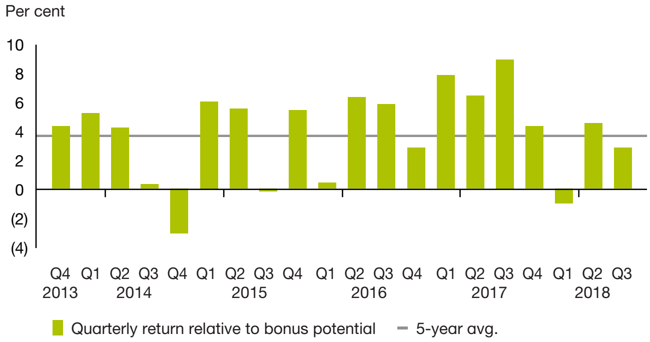




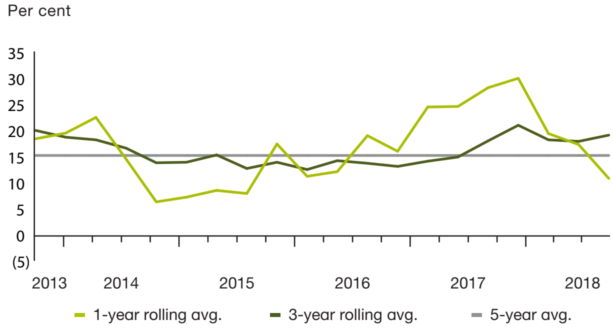
Composition of investment return in Q1-Q3 2018



Historical 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 returns in the investment portfolio

Rolling results before life expectancy update and bonus allowance relative to guaranteed pensions