

Press Release

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ATP posted strong return in H1 2016

ATP posted a strong return in the investment portfolio of DKK 6.9bn in H1 2016, equivalent to 6.7 per cent. The reduction of the administration expenses also continued in H1. With the life expectancy of ATP's members increasing more than expected, the Supervisory Board has made provisions of DKK 9.9bn by transferring assets from ATP's investment portfolio to the hedging portfolio.

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 4 risk factors) which invests ATP's free reserves (bonus potential).

Strong return in investment portfolio

"ATP's investment portfolio posted a strong return in 2016, driven mainly by bonds, alternative investments and private equity, including the investment in DONG Energy," says ATP CEO Carsten Stendevad.

Bonds, private equity, credit, commodities, infrastructure and real estate contributed positive returns, whereas especially the hedging against rising inflation produced a negative return. The investment portfolio yielded DKK 6.9bn for H1, equivalent to 6.7 per cent for H1. The three-year average annual return in the investment portfolio now stands at 14.3 per cent.

Pension guarantees protected by hedging

ATP's hedging aims to ensure that members receive the pensions promised, regardless of whether interest rates rise or fall. Due to the declining interest rates in H1, the size of ATP's provisions for the guaranteed pensions rose by DKK 93bn in the first six months of 2016. ATP's hedging portfolio, which is designed to protect the guaranteed pensions against such fluctuations, yielded a positive return of DKK 92.3bn after taxes. In total, the result of the hedging portfolio (defined as the difference between provisions for guaranteed pensions and the post-tax hedging results) was DKK -0.7bn, which is less than 0.1 percent of the guaranteed pensions (DKK 703bn) and thus considered satisfactory.

"Our hedging strategy has yet again proved itself effective and has protected our members' guarantees despite the steep decline in interest rates," says Carsten Stendevad.

The combined result of the investment and hedging portfolio was DKK 5bn for H1 2016, which is a satisfactory result as the target set by the Supervisory Board is DKK 7.1bn for the whole year.

ATP's total portfolio return from both the return-seeking investment portfolio and the hedging portfolio stood at DKK 115,8 bn in H1, equivalent to 16,4%.

Life expectancy continues to increase

As the observed life expectancy among ATP's members is increasing faster than expected, ATP's Supervisory Board has decided to increase provisions by DKK 9.9bn to safeguard ATP members' lifelong guarantees. This is done by transferring the amount from the bonus potential to the guaranteed pensions.

Over the past three years, ATP members' life expectancy has increased by five months, and a 65-year-old member can now expect to live until the age of 86. Due to these continued life expectancy adjustments, ATP has made DKK 13.5bn in provisions over the last three years.

"When we live longer, our members benefit even more from the fact that ATP is a lifelong pension scheme. For the individual member, it means that their guarantee is a bit more valuable. For ATP as a whole, it means longer payments – fortunately, we've made strong returns on our investments in past years so we can comfortably meet these increased obligations," Carsten Stendevad explains.

ATP remains well-capitalized with a bonus ratio (defined as the ratio between the bonus potential and the pension liabilities) of 13,8% at the end of H1

Due to the DKK 9.9bn provision, the result for H1 2016 was DKK -4.3bn.

Administration expenses are continuously reduced

In H1, ATP continued its focus on minimising its administration expenses. Based on process efficiency improvements, ATP now expects the full-year administration expenses to reach DKK 52 per member in 2016. This is a 9 per cent reduction compared to 2015 and a 24 per cent reduction since 2012 (in 2012, administration expenses were DKK 68 per member).

"Every reduction in administration expenses translates into higher pensions for our members – and I'm very pleased that we succeeded in reducing expenses for the third year in a row," says Carsten Stendevad.

ATP's total assets were DKK 800bn by the end of H1 2016.

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