

## Quarterly announcement Q1 2016

28 April 2016

### ATP posted a return in the investment portfolio of DKK 418m in Q1 2016

**ATP's hedging portfolio protected the pension guarantees against the significant drop in interest rates, that occurred in Q1. In the investment portfolio, ATP achieved a return of DKK 418m, equivalent to 0.4 per cent return relative to ATP's bonus reserves, driven by positive returns in bonds, alternative investments and commodities, but offset by negative returns in equities and in ATP's long-term hedging strategies against rising inflation.**

At the end of Q1 2016, the bonus potential – ATP's reserves – amounted to DKK 101.5bn, corresponding to a bonus rate of 15.5 per cent. ATP's assets amounted to DKK 757.8bn.

#### Q1 characterised by turmoil in the financial markets

Q1 was characterised by declining interest rates and negative returns in the equity markets. In ATP's investment portfolio, the largest positive return in Q1 came from the bond portfolio with a contribution of DKK 2.5bn, but also alternative investments and commodities contributed positive returns. Conversely, equities detracted DKK 1.0bn from the return, and ATP's long-term hedging strategies against rising inflation produced a negative return of DKK 2.1bn.

"ATP's investment portfolio proved robust in an unstable financial market. Declining interest rates and falling inflation are signs that the global economy is still weak, despite ever intensified monetary policy injections. Given a difficult market environment in Q1, we are very pleased to have navigated through this quarter without sustaining losses," says ATP CEO Carsten Stendevad.

#### 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 primarily to declining interest rates in Q1, the value of the guaranteed pensions increased by DKK 54.3bn. ATP's hedging portfolio, which is designed to protect pensions against such fluctuations, generated a positive return after tax of DKK 54.0bn, and the hedging strategy was thus successful. All in all, hedging activity results were negative by DKK 0.3bn, corresponding to less than 0.1 per cent of the guaranteed pensions of DKK 656.3bn, which is considered satisfactory.

"As a pension plan tasked with producing future income streams, it is thought-provoking to face a market situation where nearly half of Europe's government debt has negative interest rates. Thanks to an effective hedging strategy, we thankfully remain strongly capitalised and comfortable able to deliver on all our pension guarantees despite very low interest rates," says Carsten Stendevad, ATP CEO.

#### Facts about ATP

ATP is a mandatory pension scheme with 4,980,000 members. At the end of Q1 2016, 982,000 pensioners were receiving ATP Lifelong Pension. ATP paid out DKK 3.9bn in pension benefits in Q1. For 50 per cent of all Danish old-age pensioners, ATP Lifelong Pension is their only source of pension income other than their state-funded old-age pension. The full ATP Lifelong Pension for a 65-year-old pensioner is DKK 23,600, equivalent to 33 per cent of the basic amount of the state-funded old-age pension.

## Financial highlights of the ATP Group

DKKm	Q1 2016	Q1 2015	2015
<b>Investment</b>			
Investment return	418	5,778	16,548
Expenses	(194)	(185)	(837)
Tax on pension savings returns and income tax <sup>1</sup>	104	(709)	(2,259)
<b>Investment activity results</b>	<b>328</b>	<b>4,884</b>	<b>13,452</b>
<b>Hedging</b>			
Change in guaranteed benefits due to discount rate and maturity reduction	(54,312)	(64,396)	4,498
Return in hedging portfolio etc.	63,740	76,779	(7,992)
Tax on pension savings returns	(9,752)	(11,747)	1,223
<b>Hedging activity results</b>	<b>-324</b>	<b>636</b>	<b>(2,271)</b>
<b>Investment and hedging activity results</b>	<b>4</b>	<b>5,520</b>	<b>11,181</b>
<b>Pension</b>			
Contributions	2,331	2,260	9,055
Pension benefits	(3,856)	(3,634)	(14,566)
Change in guaranteed benefits due to contributions and payments etc.	1,826	1,590	6,694
Administration expenses, ATP Pension	(62)	(77)	(283)
Other items	0	2	149
<b>Results before life expectancy update</b>	<b>239</b>	<b>141</b>	<b>1,049</b>
Life expectancy update	0	0	(3,723)
<b>Pension activity results</b>	<b>239</b>	<b>141</b>	<b>(2,674)</b>
<b>Business processing, external parties</b>			
Business processing income, external parties	307	310	1,251
Business processing expenses, external parties	(287)	(285)	(1,229)
Income tax	0	0	(1)
<b>Business processing results, external parties</b>	<b>20</b>	<b>25</b>	<b>21</b>
<b>Results before bonus</b>	<b>263</b>	<b>5,686</b>	<b>8,528</b>
Pension increase added	0	0	(3,017)
<b>Net results for the period</b>	<b>263</b>	<b>5,686</b>	<b>5,511</b>
Guaranteed benefits	656,343	671,115	603,857
Bonus potential	101,497	101,515	101,242
<b>Net assets</b>	<b>757,840</b>	<b>772,630</b>	<b>705,099</b>
<b>Return ratios</b>			
Return on investment relative to bonus potential (before expenses and tax), per cent	0.4	6.0	17.2
Return on investment relative to bonus potential (after expenses and tax), per cent	0.3	5.1	13.9

<sup>1</sup> When calculating ATP's tax on pension savings returns, a part of the return on investment and hedging activities is exempted from pension savings returns taxation, see section 10(3) of the Danish Pension Savings Returns Tax Act (*Pensionsafkastbeskatningsloven*). The effect of the return exempted under this Act is allocated to ATP investment activities

### For further information, please contact:

Stephan Ghisler-Solvang, Head of Press, +45 6122 9392, stg@atp.dk

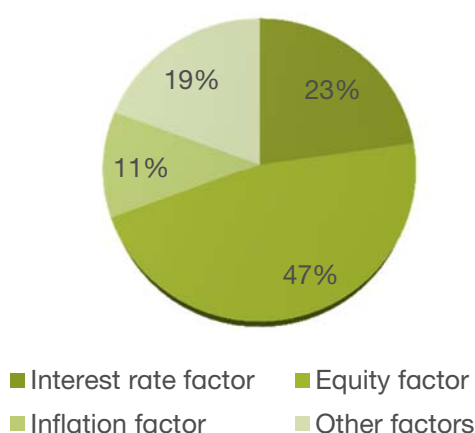
## New approach to portfolio management

With effect from 1 January 2016, ATP adapted its portfolio management through a strengthening of the way risk is measured. Rather than allocating each investment into one of five risk classes, ATP decomposes each investment into four risk factors. This approach strengthens the possibilities for risk management in that it improves the understanding of the underlying risks. Through an understanding of the underlying risk factors, ATP is able to better assess the actual risk and diversification contributed by each investment. Under the new investment strategy, the risk associated with each investment is determined on the basis of the four risk factors, depending on the types of risks to which the investment is exposed.

Real estate is an example of an investment that is exposed to all four risk factors. Future rental income from rental properties is typically fully or partially inflation-adjusted. Therefore, the risk calculation includes both an interest rate element (interest rate sensitivity of future rental income) and an inflation risk element (inflation risk of future rental income). To this should be added the risk associated with cyclical factors, making re-letting difficult. This risk is closely connected with the equity factor. Finally, real estate is relatively illiquid, and the risk of loss if illiquidity makes real estate particularly difficult to sell is classified as 'other factors'. 'Other factors' include two risk categories, i.e. risks from alternative liquid factors (also known as alternative risk premiums) and risks from alternative illiquid investments. Alternative liquid factors include a group of well-documented investment strategies seeking to create value through exposure to specific segments in liquid markets, e.g. equities with low market value relative to book value. Alternative illiquid investments comprise less traditional investments which are typically not traded in established markets, for example investments in private equity funds, real estate, infrastructure, forestry and certain types of credit. For more information, reference is made to the ATP Group's Annual Report 2015.

The factor investing approach provides a better basis for making informed investment decisions and increases investment flexibility by allowing analysis and comparison of investments without reference to asset type. The factor investing approach is primarily an internal risk management tool, and for the sake of clarity, ATP will continue to refer to the traditional asset classes in its return reporting.

## Average risk allocation for the investment portfolio<sup>1</sup> in Q1 2016



<sup>1</sup> The allocation in the investment portfolio is exclusive of the Supervisory Board's long-term strategies against rising inflation.

## Composition of the investment return for Q1 2016

	DKK m
Bonds	2,497
Listed Danish equities	(607)
Listed international equities	(771)
Private equity	396
High-yield bonds	383
Loans	255
Commodities	468
Real estate	389
Infrastructure	236
Hedging strategies against rising inflation	(2,123)
Other inflation exposure	(548)
Interest payments etc. <sup>1</sup>	(157)
<b>Total investment return<sup>2</sup></b>	<b>418</b>

<sup>1</sup> Primarily interest payments to the hedging portfolio.

<sup>2</sup> Constitutes 0.4 per cent of the bonus potential before tax and expenses.