

Quarterly Report Q1 2020
30 April 2020

ATP's lifelong guarantees to members remain intact after the financial unrest in Q1

ATP's business model and objective of providing basic financial security throughout its members' old age has shown its robustness in a particularly turbulent quarter. Despite substantial drops in the financial markets during Q1, resulting in investment portfolio losses, members' pension guarantees remain intact.

"The lifelong guaranteed pension that we have promised our members remains, in spite of the significant drops in the financial markets during the first quarter of the year," says Bo Foged, CEO of ATP.

The vast majority of members' contributions go to lifelong guaranteed pension benefits to be disbursed when they retire. This is especially beneficial for those members for whom ATP's Lifelong Pension is the largest private pension income, which represents nearly half of all pension recipients in 2020.

"We are satisfied to see that our model with its substantial guarantee element makes it well through an extreme situation with substantial financial unrest. The guarantees remain intact and our members are receiving exactly what we promised them before the crisis. It has been a pleasure to see how ATP's various investment teams, from each of their own home-based workstations, have managed to navigate the market unrest caused by the Corona pandemic," says Bo Foged, CEO of ATP.

Hedging protects pension guarantees

Hedging the guaranteed pensions is intended to ensure that members receive what we have promised them, regardless of financial market developments. Primarily due to interest rate drops for Danish and European state bonds with long residual maturity, the value of guaranteed pensions increased by DKK 32.1bn in Q1. Correspondingly, the hedging portfolio realised positive returns after tax of DKK 30.4bn. The value of the hedging portfolio therefore increased in step with the pension guarantees, and the hedging once more worked as intended, protecting the guarantees. The hedging result before yield curve break of DKK (1.8)bn is equal to 0.2 per cent of the guaranteed pensions, which at the end of March 2020 stood at DKK 791.2bn.

Investment portfolio

As a result of the substantial drops in the financial markets, the investment portfolio, which is in part invested with a view to maintaining the real value of the guaranteed pensions, saw a negative return of DKK 29.2bn before tax, equal to (26) per cent of the average bonus potential for the period. The investment portfolio was widely affected by the market development of negative returns, including especially international listed equities and inflation-related instruments, while state and mortgage bonds realised positive returns. The total return should, however, be seen in the light of the fact that since 2010 ATP has generated returns of DKK 165bn in the investment portfolio (see figure on page 3), equal to an average return of 4.3 per cent per quarter.

"After an extended period of strong investment returns, Q1 2020 saw us having to give some of the previous returns back. In spite of the substantial financial market fluctuations caused by the Corona crisis, the investment portfolio has been kept inside the frameworks of our risk models, and at the same time we are maintaining a margin for manoeuvre to allow us to take controlled market risks when and if we should so wish. We maintain our disciplined approach to risk management in order to create satisfactory results in the long term. In the short term, the result will, unfortunately, reduce the possibility of increasing pensions," says Bo Foged, CEO of ATP.

Net profit for the period and net assets

The Q1 result was DKK (27.8)bn. At the end of Q1 2020 the bonus potential – ATP's free reserves – totalled DKK 98.3bn. This means that ATP still enjoys a solid capital basis with overhedging of 12.4 per cent relative to guaranteed pensions of DKK 791.2bn. ATP members' net assets amounted to DKK 889.5bn at the end of Q1 2020, which is on level with the end of 2019.

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Financial Highlights and Ratios for the ATP Group

DKKm	Q1 2020	Q1 2019	FY 2019
Investment			
Investment return	(28,980)	19,964	40,705
Expenses	(227)	(238)	(937)
Tax on pension savings returns and corporate income tax	4,458	(2,936)	(5,723)
Investment activity results	(24,749)	16,790	34,045
Hedging activities			
Change in guaranteed pensions due to discount rate and maturity reduction ¹	(32,137)	(36,225)	(72,337)
Return on the hedging portfolio	35,835	43,947	86,710
Tax on pension savings returns	(5,483)	(6,724)	(13,267)
Results of hedging of pension liabilities	(1,785)	998	1,106
Change in guaranteed pensions due to yield curve break ²	(1,583)	(958)	(5,248)
Hedging activity results	(3,368)	40	(4,142)
Investment and hedging activity results	(28,117)	16,830	29,903
Pension			
Contributions	2,523	2,456	10,061
Pension benefits	(4,333)	(4,325)	(17,054)
Change in guaranteed pensions due to contributions and payouts	2,161	2,182	8,099
Administration activity expenses	(56)	(47)	(201)
Other items	1	2	7
Pension activity results before life expectancy update	296	268	912
Business processing, external parties			
Income	631	606	2,436
Expenses	(574)	(579)	(2,435)
Corporate income tax	0	0	0
Business processing result, external parties	57	26	1
Results before bonus allowances and life expectancy update	(27,764)	17,124	30,816
Life expectancy update	0	0	3,231
Bonus addition for the period	0	0	0
Net profit for the period	(27,764)	17,124	34,047
Guaranteed pensions	791,187	728,374	759,628
Bonus potential	98,286	109,187	125,980
Net assets	889,473	837,560	885,608

Return ratios	Q1	1 year	3 years	5 years
Return on investment before tax relative to the bonus potential in per cent ³	(26.0)	(13.1)	5.2	9.6
Risk-adjusted return ⁴	(3.3)	(0.2)	0.3	0.5
The Danish Financial Supervisory Authority's return ratios in per cent	0.8	8.3	8.3	4.6
Yield on guarantees (avg.) in per cent	0.8	3.4	3.5	3.6

¹ Before effect of yield curve break

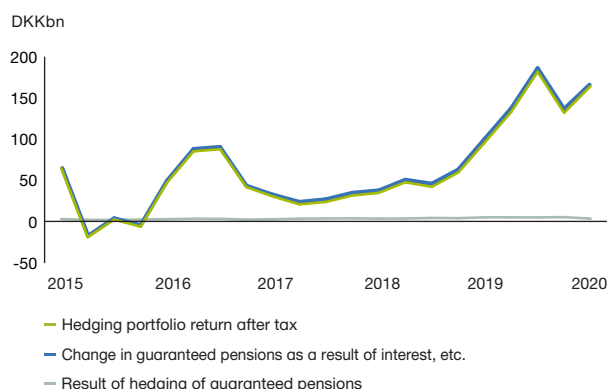
² 'Yield curve break' is the point on the yield curve at 40 years where the guaranteed benefits shift from being discounted by a fixed rate to being discounted by a market rate.

³ ATP Group investment return before tax (excluding minority interests) in accordance with bonus potential (avg.)

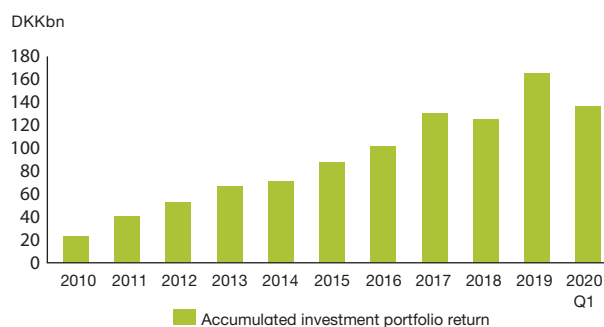
The investment portfolio follows a risk-based investment approach, the focus of which is on risk rather than on the amount of DKK invested. The investment portfolio, as a general rule, consists of funds from the bonus potential. Funds not tied up in the hedging portfolio as a result of the use of derivative financial instruments are available for investment in the investment portfolio on market terms. In practice, this means that the investment portfolio can operate with greater funds than the bonus potential. The market value at the end of Q1 2020 was DKK 316.5bn. The market value of the investment portfolio also includes financial derivatives of which the market value will typically be low, zero or negative.

⁴ Risk-adjusted return is a return measure similar to the Sharpe ratio, which expresses the relationship between actual return and 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 historical observations going back to the beginning of 2008.

Hedging protects guaranteed pensions accumulated 2015 - Q1 2020



Historical accumulated returns on the investment portfolio before tax - 2010 - Q1 2020



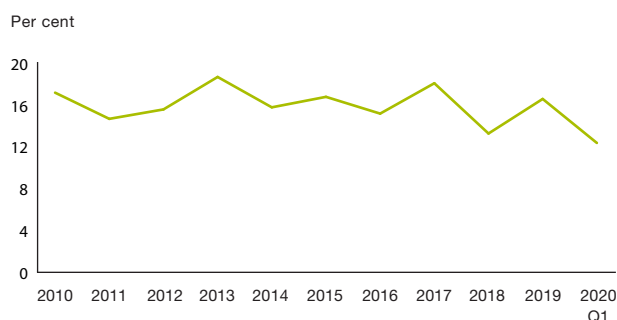
Investment portfolio

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 central element of the ATP investment strategy is that the investment portfolio market risk is adjusted on an ongoing basis in line with the size of the bonus potential, such that ATP's risks are always contained within the risk appetite.

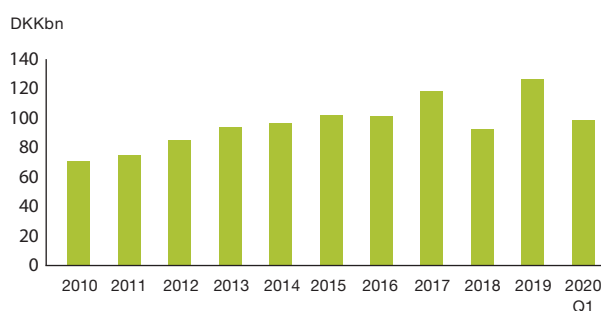
To maintain a robust investment portfolio with a stable return and the greatest possible independence from cyclical variations, investment decisions are informed by a strategy of risk diversification. ATP allocates the risk associated with each investment on the basis of four different risk factors, 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 article "Developments in ATP's investing approach" in the 2018 ATP Group annual report and in the article "ATP's investment approach" in the 2019 ATP Group annual report.

Historical development in bonus rate 2010 - Q1 2020



Historical development in bonus potential 2010 - Q1 2020



Facts about ATP

ATP is a mandatory pension scheme with 5,288,000 members. During the first quarter of the year, ATP's members contributed DKK 2.5bn. By the end of Q1 2020 1,053,000 pensioners were receiving ATP Livslang Pension (ATP 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 old age pension. The full annual ATP Livslang Pension for a 66-year-old is DKK 25,200.