

ATP's pension guarantees continue to provide basic security

The members' pension guarantees remain intact after a Q1 2021 wherein ATP's hedging strategy once again worked like it should. Rising interest rates resulted in minor losses to the portfolio in the first quarter.

The investment portfolio

The first quarter of this year was impacted by rising interest rates (particularly in the United States) and the gains in the global equity markets, driven by expectations of a strong economic recovery in the wake of the gradual reopening of the global economy as vaccination rates increase.

The investment portfolio generated negative returns of DKK 1.2bn, which amounts to (0.9) per cent of the bonus potential before tax. It was particularly investments in government and mortgage bonds that generated negative returns due to the rising interest rates. Virtually all other asset classes contributed with positive returns, particularly the equity investments.

"ATP's current investment strategy is relatively heavily exposed to interest rates, and this makes it sensitive to the rising interest rates that we saw in the first quarter. Seen from a longer term perspective, however, the strategy has served ATP's members well - this can be seen from the annual returns, which over the past five years have been close to 20 per cent," says Bo Foged, CEO of ATP.

Hedging protects the pension guarantees

ATP's pension products are guaranteed products that contribute to providing our members with basic financial security in their old age. ATP is paid out as a life-long benefit and therefore supplements the Danish state pension throughout a person's retirement. This is especially beneficial for those members for whom ATP Livslang Pension (Lifelong Pension) is the largest private pension income, which is the case for 40 per cent of all pension recipients in 2021.

"As a fundamental part of the Danish pension system, it is critical that Danes can count on ATP. We provide a guaranteed and lifelong product, and in this quarter we again saw that our hedging against interest rate risks protected our guarantees, ensuring that ATP's members can be paid exactly what we have promised them," says Bo Foged, CEO of ATP.

The value of the guaranteed pensions fell by DKK 50.6bn in the first quarter of the year, mainly due to rising interest rates. Correspondingly, the hedging portfolio generated negative returns (after tax) of DKK 50.6bn. The value of the hedging portfolio thus fell as the value of the pension guarantees fell, and the hedging worked as intended by following the guarantees. That the total result for hedging activities amounted to DKK (1.6bn) is due to a yield curve break when discounting the guaranteed pensions to net present value. This amounts to 0.2 per cent of the value of the guaranteed pensions, which at the end of March 2021 amounted to DKK 762.4bn, and it thus has no impact on ATP's total assets.

Results for the period and assets

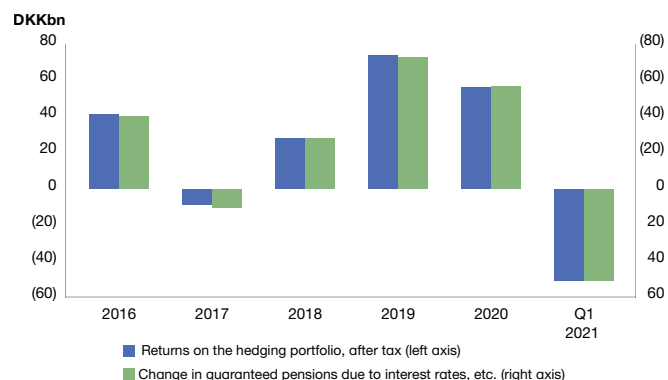
The result for the first quarter of the year amounted to DKK (1.9bn). The bonus potential (ATP's reserves) amounted to DKK 144.2bn at the start of the first quarter. Thus, ATP still has a solid capitalisation with an excess cover of 18.9 per cent in relation to the guaranteed pensions of DKK 762.4bn. ATP member net assets amounted to DKK 906.6bn.

Financial Highlights and Ratios for the ATP Group

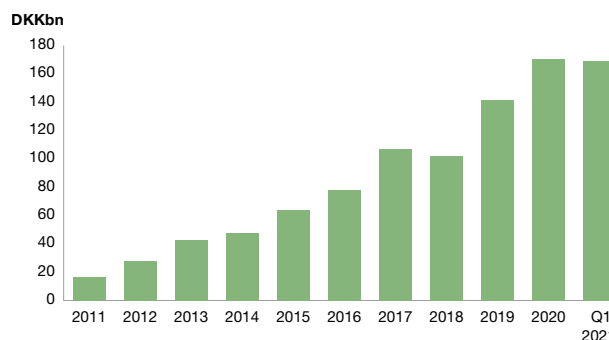
DKKm	Q1 2021	Q1 2020	The year 2020	
Investments				
Investment return	(972)	(28,980)	29,901	
Expenses	(225)	(227)	(886)	
Tax on pension savings returns and corporate income tax	116	4,458	(4,378)	
Investment activity results	(1,081)	(24,749)	24,637	
Hedging activities				
Change in guaranteed pensions due to discount rate and maturity reduction	50,551	(32,137)	(56,807)	
Return in hedging portfolio	(59,692)	35,835	66,484	
Tax on pension savings returns	9,133	(5,483)	(10,172)	
Result of hedging of guaranteed pensions	(8)	(1,785)	(495)	
Change in guaranteed pensions due to yield curve break	(1,567)	(1,583)	(6,523)	
Hedging activity results	(1,575)	(3,368)	(7,018)	
Results from Investment and Hedging	(2,656)	(28,117)	17,619	
Pension				
Contributions	2,850	2,523	10,744	
Pension benefits	(4,371)	(4,333)	(17,180)	
Change in guaranteed pensions due to contributions and payouts	2,220	2,161	8,239	
Administration activity expenses	(53)	(56)	(210)	
Other items	2	1	6	
Pension activity results before life expectancy update	648	296	1,599	
Business processing, external parties				
Income	674	631	2,297	
Expenses	(608)	(574)	(2,297)	
Corporate income tax	0	0	0	
Business processing result, external parties	66	57	(1)	
Results before bonus allowances and life expectancy update	(1,942)	(27,764)	19,217	
Life expectancy update	0	0	1,130	
Bonus addition for the period	0	0	0	
Net profit for the period	(1,942)	(27,764)	20,347	
Guaranteed pensions	762,385	791,187	813,589	
Bonus potential	144,216	98,286	146,221	
Net assets	906,601	889,473	959,810	
	Q1 2021	1-year	3-year	5-year
Return ratios				
Return on investment before tax relative to the bonus potential, per cent ¹	(0.9)	59.7	18.9	19.9
Risk-adjusted return	-	1.47	0.61	0.67
The Danish Financial Supervisory Authority's return ratios (N1)	(6.4)	3.0	7.6	5.2
Value creation key figures				
Value creation from guarantees	0.8	3.4	3.4	3.5
Value creation from bonus potential	(1.8)	42.5	11.0	12.3
Value creation, total	0.2	10.3	5.0	5.2

¹Return on Investments is calculated as a daily time weighted return on the bonus potential. 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 more funds than the bonus potential. The market value at the end of Q1 2021 was DKK 399.6bn. The market value of the investment portfolio also includes financial derivatives of which the market value will typically be low, zero or negative.

Hedging protects the guaranteed pensions 2016 - Q1 2021



Historical accumulated returns on the investment portfolio before tax - 2011 - Q1 2021



The 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 supplemental information for ATP's 2020 annual report which can be found at www.atp.dk.

Facts about ATP

ATP is a mandatory pension scheme with 5,355,000 members. During the first quarter of the year, ATP's members contributed DKK 2.9bn. By the end of Q1 2021, 1,045,000 pensioners were receiving ATP Livslang Pension (Lifelong Pension). During Q1, ATP paid out DKK 4.4bn 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 pension. The full ATP Livslang Pension for a 66½-year-old is DKK 26,200.