

**Quarterly report for Q1-Q3 2020**  
29 October 2020

## **ATP's investment return has more than made up for the losses in the first quarter**

**The investment portfolio has recovered from the losses that occurred during the first part of the corona crisis due to the drastic declines in the financial markets. The members' pension guarantees are still intact and ATP's goal of providing basic financial security has again proven its robustness.**

### **Losses in the investment portfolio during the first quarter have been more than recovered**

The investment portfolio generated returns of DKK 5.2bn, amounting before tax to 3.6 per cent of the average bonus potential for the period. In particular, investments in government and mortgage bonds and in listed Danish equities made positive contributions to the returns, while listed international equities had the highest negative returns. Losses due to the drastic declines on the financial markets during the first part of the corona crisis have thus been fully recovered from. Since 2010, ATP has generated a return of DKK 169.4bn in the investment portfolio, amounting to an average annual return of 16.7 per cent.

*"For many years, we have worked with processes and risk management in a targeted manner. This has been a strong contributing factor in allowing us to navigate through the worst crisis on the financial markets in modern times. Even if one should be careful about looking at individual quarters when you are a long-term investor such as ATP, I am satisfied with how we, despite the drastic declines on the financial markets in the beginning of the year, have managed to create positive returns for 2020 so far," says Bo Foged, CEO of ATP.*

### **Hedging protects pension guarantees**

ATP's pension product is a guaranteed product that ensures its members a basic financial security. The hedging of the guarantees for the period has ensured that ATP can keep its promises to its members. ATP is paid out as a life-long benefit and thus supplements the state pension for the whole pension period. This is especially beneficial for those members for whom ATP Livslang Pension (Lifelong Pension) is the only private pension income apart from the state pension, which is the case for 40 per cent of all pension recipients in 2020.

*"Together with the state pension, ATP is the foundation of basic financial security during retirement. Therefore, it is absolutely critical that the members can count on their lifelong pension, and that the guarantees are intact, even though the financial markets have been especially turbulent in 2020," says Bo Foged, CEO of ATP.*

The value of the guaranteed pensions rose by DKK 52.2bn during the first three quarters of the year, mainly due to falling interest rates. Compared to this, the hedging portfolio realised positive returns after tax of DKK 51.7bn. The value of the hedging portfolio therefore increased in step with the pension guarantees, and the hedging once more worked as intended, namely, as a protection for the guarantees. The hedging result before the yield curve break of DKK -0.5bn amounts to less than 0.1 per cent of the value of the guaranteed pensions, which at the end of September 2020 amounted to DKK 809.3bn. The total net result from hedging amounted to DKK -5.4bn, which is mainly due to the yield curve break when discounting the guaranteed pensions and this does not impact ATP's total assets.

### **Result for the period and assets**

The result for the first three quarters of the year amounted to DKK 0.9bn. ATP has set aside provisions of DKK 10.0bn to pay pension yield taxes for the period. The bonus potential (ATP's reserves) at the end of the third quarter of 2020 amounted to DKK 126.9bn. Thus, ATP is still robustly capitalised with an excess cover of 15.7 per cent in relation to the guaranteed pensions of DKK 809.3bn. The assets of ATP members amounted to a total of DKK 936.1bn at the end of the third quarter 2020.

For further information, please contact:

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

## Financial Highlights and Ratios for the ATP Group

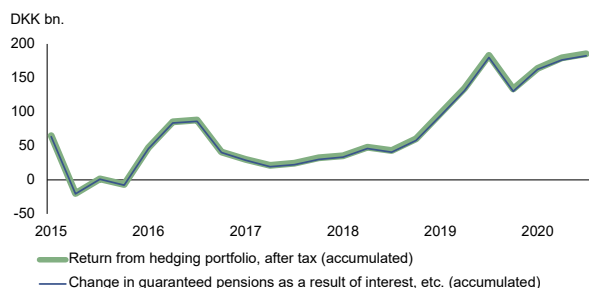
| DKKm  | Q3<br>2020     | Q1-Q3<br>2020  | Q1-Q3<br>2019  | The year<br>2019 |
|---|----------------|----------------|----------------|------------------|
| <b>Investment</b>   |                |                |                |                  |
| Investment return   | 16,773         | 5,195          | 36,943         | 40,705           |
| Expenses  | (214)          | (653)          | (711)          | (937)            |
| Tax on pension savings returns and corporate income tax                   | (2,515)        | (639)          | (5,339)        | (5,723)          |
| <b>Investment activity results</b>  | <b>14,044</b>  | <b>3,903</b>   | <b>30,893</b>  | <b>34,045</b>    |
| <b>Hedging activities</b>   |                |                |                |                  |
| Change in guaranteed pensions due to discount rate and maturity reduction | (6,131)        | (52,237)       | (121,948)      | (72,337)         |
| Return on the hedging portfolio   | 6,917          | 61,066         | 145,028        | 86,710           |
| Tax on pension savings returns  | (1,058)        | (9,343)        | (22,189)       | (13,267)         |
| <b>Results of hedging of pension liabilities</b>                          | <b>(272)</b>   | <b>(514)</b>   | <b>891</b>     | <b>1,106</b>     |
| Change in guaranteed pensions due to yield curve break <sup>1</sup>       | (1,627)        | (4,864)        | (3,691)        | (5,248)          |
| <b>Hedging activity results</b>   | <b>(1,899)</b> | <b>(5,378)</b> | <b>(2,800)</b> | <b>(4,142)</b>   |
| <b>Investment and hedging activity results</b>                            | <b>12,145</b>  | <b>(1,476)</b> | <b>28,093</b>  | <b>29,903</b>    |
| <b>Pension</b>  |                |                |                |                  |
| Contributions   | 2,675          | 7,890          | 7,460          | 10,061           |
| Pension benefits  | (4,263)        | (12,868)       | (12,778)       | (17,054)         |
| Change in guaranteed pensions due to contributions and payouts            | 1,997          | 6,347          | 5,957          | 8,099            |
| Administration activity expenses  | (48)           | (155)          | (142)          | (201)            |
| Other items   | 2              | 5              | 5              | 7                |
| <b>Pension activity results before life expectancy update</b>             | <b>363</b>     | <b>1,219</b>   | <b>501</b>     | <b>912</b>       |
| <b>Business processing, external parties</b>                              |                |                |                |                  |
| Income  | 521            | 1,657          | 1,836          | 2,436            |
| Expenses  | (552)          | (1,663)        | (1,841)        | (2,435)          |
| Corporate income tax  | 0              | 0              | 0              | 0                |
| <b>Business processing result, external parties</b>                       | <b>(31)</b>    | <b>(7)</b>     | <b>(5)</b>     | <b>1</b>         |
| <b>Results before bonus allowances and life expectancy update</b>         | <b>12,477</b>  | <b>(264)</b>   | <b>28,589</b>  | <b>30,816</b>    |
| Life expectancy update  | 0              | 1,130          | 3,231          | 3,231            |
| Bonus addition for the period   | 0              | 0              | 0              | 0                |
| <b>Net profit for the period</b>  | <b>12,477</b>  | <b>867</b>     | <b>31,820</b>  | <b>34,047</b>    |
| Guaranteed pensions   | 809,252        | 809,252        | 809,824        | 759,628          |
| Bonus potential   | 126,861        | 126,861        | 123,788        | 125,980          |
| <b>Net assets</b>   | <b>936,113</b> | <b>936,113</b> | <b>933,612</b> | <b>885,608</b>   |

| Return ratios  | Q1-Q3<br>2020 | 1-year | 3-year | 5-year |
|--|---------------|--------|--------|--------|
| Return on investment before tax relative to the bonus potential in per cent <sup>2</sup> | 3.6           | 0.5    | 10.2   | 14.8   |
| Risk-adjusted return   | 0.2           | 0.3    | 0.5    | 0.6    |
| Danish FSA ratios N1, in per cent  | 7.4           | 1.1    | 9.6    | 7.7    |
| Yield on guarantees (avg.), in per cent  | 2.5           | 3.4    | 3.5    | 3.6    |

<sup>1</sup> '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.

<sup>2</sup>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 the third quarter of 2020 was DKK 367.3bn. 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 guaranteed pensions Accumulated 2015 - Q3 2020



## Historical accumulated returns on the investment portfolio before tax - 2010 - Q3 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.

### Facts about ATP

ATP is a mandatory pension scheme with 5,322,000 members. During the first three quarters of the year, ATP's members contributed DKK 7.9bn. By the end of the third quarter of 2020, 1,046,000 pensioners were receiving ATP Livslang Pension (Lifelong Pension). During the first three quarters of the year, ATP paid out DKK 12.9bn 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 annual ATP Livslang Pension for a 66-year-old is DKK 25,200,