

Annual Report 2020



pensionskassen
Arkitekter & Designere

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The English version of the Annual Report is a translation of the original document in Danish for information purposes only. In case of any discrepancies of legal disputes, the Danish original will prevail.

“We stepped up our green investments, and the community’s share of green investments increased by almost 25% in 2020”



Strong activity in a turbulent year

2020 was a year in which the world was in many ways put under pressure. Due to the coronavirus pandemic, we were the first Danish pension fund to hold a fully online general meeting.

Our investments were also severely affected by the economic turmoil resulting from the coronavirus pandemic, and the return for 2020 ended at DKK 238 million, corresponding to 2.4%. It is important to note that the performance of pension savings should be considered over a longer period of time, and over the past seven years alone, the Architects' Pension Fund has achieved an accumulated return of 47.9%.

In 2020, the Board of Directors worked determinedly towards the transition to a new and modern pension product and made a huge and thorough effort in connection with the offer of an individual transition to a unit-linked product. We expect to offer this product to all of our members later in 2021. It has been a long and bumpy journey. For the time being, we are excited that after 1 January 2021, all new business is written in our unit-linked product.

In 2020, we also focused a great deal on strengthening our member democracy. In the beginning of the year, we held several members' meetings at which we presented our responsible investment activities and upcoming unit-linked product. Our collaboration and dialogue with FAOD strengthened during the year and so did our relationship with the Danish Association of Architects.

For the past several years, the Board of Directors has made efforts to ensure that it possesses the right skills, so that we can discharge our responsibility for the pension fund. In 2020, we strengthened the Board of Directors with three new strong and professional profiles. In spring, FAOD appointed Klaus Berentsen as a new member. Klaus has a professional career in the financial sector and extensive experience with strategy work. The other two new members are Lene Dammand Lund, who was elected by the employees, and Holger Ove Bisgaard, who was appointed by the Danish Association of Architects. In addition to many years of management and board experience, all three members possess common sense and holistic thinking as well as focus on member democracy and corporate social responsibility.

When it comes to climate and responsibility, the Architects' Pension Fund has high ambitions. We want to push our entire portfolio in a sustainable direction. We therefore invest in companies that are planning to transition and we exclude companies that have not sufficiently improved.

We use the 17 UN Sustainable Development Goals as benchmarks, and through engagement and voting, we influence the companies in our portfolio to increase their support of these goals. We particularly focus on issues that are of interest to our members, such as climate impact, tax matters, water consumption and ESG Governance, i.e. requirements to the corporate social responsibility efforts of the companies we invest in.

The carbon footprint of the Sampension community's equity portfolio was further reduced by some 20% in 2020. During the year, unacceptable environmental practices led to 38 exclusions from our community's investment universe. Another major group of 170 companies have been excluded due to their coal and tar sand activities. The Sampension community exclusion list comprises a total of 276 companies. We also stepped up our green investments, and the community's share of green investments increased by almost 25% in 2020.

Lastly, a request: The Board of Directors would like to know our members' ideas of a good life and what direction our members envision us taking in the future. Contact us – and make your vote count at the general meeting.



Cecilie Therese Hansen
Chairman of the Board of Directors





Management's review

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Five-year key figures and financial ratios

Five-year key figures DKKm	2020	2019	2018	2017	2016
Premiums	387.4	387.7	373.0	351.8	336.6
<i>Pension benefits paid. profit/loss</i>	-265.0	-253.1	-258.0	-274.7	-240.6
<i>Pension benefits paid. equity</i>	-70.1	-76.6	-63.9	-39.9	-45.3
Total pension benefits paid	-335.1	-329.7	-322.0	-314.7	-286.0
Investment return	237.7	920.5	-193.3	606.3	600.1
Total pension operating expenses	-4.9	-4.9	-5.4	-5.1	-9.8
Technical result	14.6	9.9	4.4	7.9	40.7
Profit/loss for the year	56.7	186.1	-34.9	130.7	162.1
Total pension provisions	7,382.9	7,132.1	6,450.4	6,461.4	6,032.7
Excess capital	519.4	506.0	462.5	470.5	440.4
Equity	2,145.9	2,159.2	2,049.8	2,148.6	2,057.9
Total assets	10,385.9	10,516.7	9,542.6	9,636.8	8,690.6

Five-year financial ratios	2020	2019	2018	2017	2016
Return ratios					
Rate of return related to average-rate products	2.4%	10.2%	-2.1%	7.1%	7.5%
Expense ratios					
Expenses as a percentage of pension provisions	0.07%	0.08%	0.08%	0.08%	0.17%
Expenses per member (DKK)	479	486	547	540	1,042
Other return ratios					
Return on equity after tax	2.6%	8.8%	-1.7%	6.2%	8.1%
Return on excess capital	3.0%	10.4%	-2.1%	7.5%	7.5%
Capital structure ratios					
Solvency coverage ratio	260%	256%	282%	377%	428%

Reference is made to "Definitions of financial ratios" on page 51.

Members and pension schemes

The Architects' Pension Fund (AP) is a member-owned pension fund established in 1957. AP has more than 10,300 members, most of whom are qualified architects or designers or have similar educational backgrounds. The pension fund also admits employees of enterprises or associations affiliated with the architectural profession.

AP is part of the Sampension community (the joint management company). In addition to AP, the Sampension community comprises the Sampension Livsforsikring Group (Sampension Liv), the Pension Fund for Agricultural Academics and Veterinary Surgeons (PJD) and the Pension Fund for Technicians and Bachelors of Engineering (ISP). The group of owners of Sampension Administrationselskab A/S comprises: Sampension Livsforsikring A/S (88%), AP (3%), PJD (3%) and ISP (6%).

Pension schemes with AP consist of pension savings and, for most premium-paying and inactive members, insurance components covering certain critical illnesses, loss of earning capacity and death. Pension savings earn interest according to an average-rate principle, which means that the rate of interest on policyholders' savings reflects the average return achieved over time. The rate of interest on policyholders' savings is fixed by the pension fund according to collective principles.

As of 1 January 2021, all new members of the pension fund get our new 3 i 1 Livspension unit-linked pension product. Subject to the expected approval by the general meeting, existing members will also be able to choose 3 i 1 Livspension after the summer of 2021.

Premiums and benefits

Premium income of

DKK **387** mill.

Premium income

Premiums fell by 0.1% from DKK 387.7 million in 2019 to DKK 387.4 million in 2020. Regular premiums grew by DKK 6.3 million, while single premiums and transfers decreased by DKK 6.6 million.

Premium income DKKm	2020	2019	Change (%)
Regular premiums	357.8	351.5	1.8
Single premiums etc.	29.6	36.2	-18.4
Total premiums	387.4	387.7	-0.1

The number of members at 31 December 2020 was 10,337 against 10,090 at 31 December 2019, an increase of 2.4%.

Number of members	31.12.2020	31.12.2019	Change (%)
Premium-paying members in active employment	5,019	4,912	2.2
Paid-up policies etc.	2,941	2,880	2.1
Pensioners	2,377	2,298	3.4
Total number of members	10,337	10,090	2.4

Benefit payments

Total benefits paid amounted to DKK 335.1 million in 2020 against DKK 329.7 million in 2019, including supplementary pensions financed via equity. The increase was primarily attributable to regular pension benefits.

Expenses

For a number of years, AP has made targeted efforts to reduce its expenses, which are among the lowest in the industry: The lower the expenses, the greater the proportion of contributions and returns will be allocated to savings. Ensuring low investment and administration expenses is a priority at AP.

Efficient investment management

Internal and external management efficiency is very important to AP. We use cost-benefit analyses to assess whether the various portfolios should be managed internally or externally.

Virtually all of our equity investments are outsourced to external asset managers, while most bonds and other fixed-income instruments are managed in-house. A number of investments in higher-risk credit bonds are made through external managers, and most alternative investments in, e.g., forestry, hedge funds and unlisted equities are managed by external managers.

Investment expenses

Investment expenses include expenses incurred by AP, which are disclosed directly in the financial statements, and indirect expenses incurred when investing in external funds, investment associations, etc. Investment expenses as a percentage of member savings were 0.62% in 2020 compared with 0.57% in 2019. The increase was mainly driven by expenses in connection with investments in externally managed private equity funds.

Return ratios are calculated after deduction of direct and indirect investment expenses. The return after investment expenses is the all-important ratio to consider when assessing the performance of members' pension savings.

Administrative expenses per member of DKK 479

Pension administrative expenses amounted to DKK 4.9 million in 2020, unchanged relative to 2019.

- Expenses per member amounted to DKK 479 in 2020 against DKK 486 in 2019
- Expenses expressed as a percentage of provisions was 0.07% in 2020 compared with 0.08% in 2019.

Total APR of 0.9%

Our website, arkitektpension.dk, provides information to members on annual expenses expressed in Danish kroner and as a percentage (APR). The total APR for 2020 was unchanged at 0.9%, calculated for a member with conditionally guaranteed benefits and savings of DKK 1 million and annual contributions of DKK 50,000. APR includes an annual administration fee of DKK 480 per member, 0.1% of members' regular premiums, investment expenses as set out above and a risk premium of 0.25%.

**Administrative
expenses per
policyholder**

DKK **479**

Investments and returns

The global economy and financial markets

At the beginning of 2020, we expected that the upswing lasting since the end of the financial crisis in 2010 would continue for another year, although particularly the trade dispute between the USA and China as well as Brexit would slightly weaken the upswing. Instead, 2020 was dominated by a high degree of uncertainty as an unknown virus broke out in China in the beginning of the year and subsequently spread to the rest of the world, causing the global economy to plunge into its deepest recession since World War II. The coronavirus pandemic led to a sudden lockdown of major parts of society, resulting in economic collapses. The recession was severe, but relatively short-lived, as historical fiscal and monetary relief packages supported the economy. The spring brought along increasing economic activity and the loss of jobs and growth was less severe than initially expected. As the winter season set in, a new wave of coronavirus hit. It was once again necessary to drastically lock down most economies and offer even more fiscal and monetary relief packages to keep economies afloat. The global growth is expected to have dropped some 4% in 2020, while it only decreased by 0.1% in 2009 during the financial crisis. The service sector has been, and still is, particularly hard hit, while industrial production appears to have gotten through 2020 relatively unscathed. The lockdowns have led to an accumulated spending and investment need which may kick growth into gear once we emerge from the coronavirus pandemic

The financial markets were heavily affected by the lockdown in the beginning of 2020. The world equity index fell by more than 33% during February and March, while interest rates drastically dropped. In 2020, the financial markets were generally dominated by major interest rate declines, resulting from the central banks' very lenient monetary policy with interest rate cuts and major liquidity injections. In addition, equity markets surged, particularly at the end of 2020, driven by the outcome of the US presidential election and the news about the new vaccines that were about to be rolled out. The global equity market index was up by 14% in 2020. The Danish equity market was the best performer with an impressive 31% increase, followed with a clear gap to other equity market increases, with emerging markets at 19%, the US at 18% and the Asian at 15%. European equities just barely kept their value, while the UK equity market dropped by 12%. Return rates are stated before translation into Danish kroner and reflect benchmark indices for the respective markets.

Investment strategy

Our investment strategy aims to maximise the long-term return in a responsible manner and within the given risk framework.

We are currently in the process of building our portfolio of direct investments in debt, unlisted equities and real estate, and these efforts continued in 2020. Despite the coronavirus pandemic, AP's portfolio of direct investments in debt, unlisted equities and real estate continued to expand throughout 2020. AP thus invested in, for example, a major housing project at the old hospital site in Hørsholm, Denmark and co-invested in a large portfolio of logistics centres in France and Germany. In the beginning of the year, the four pension providers in the joint management company made a co-investment in a European manufacturer of specialised packaging. The private equity portfolio was also expanded with three funds focusing on software companies and small Nordic companies, for example. As for our forestry portfolio, the Oregon investment was expanded with a major purchase in the same area, and the four pension providers made commitments to the Danish manager Copenhagen Infrastructure Partners, which invests in the construction of new green energy plants in OECD countries.

Investment return of DKK 237.7 million or 2.4%

AP's total return was 2.4% in 2020. All asset classes, except for real estate and infrastructure, made positive contributions to the total return. With a return of 5.9% in DKK terms, listed equities were the largest contributor, it being noted that this asset class represents a much larger proportion than the other asset classes with high absolute returns, see the table below. The return on AP's listed equities for 2020 was affected by the value equities generating a lower return than growth equities (-30 percentage points) in 2020, it being noted that the portfolio has a relatively larger proportion of value equities. Private equity, commodities and forestry as well as bonds subject to credit risk also performed well, but their impact on the total return was limited due to relatively moderate asset holdings.

Investment return by asset class	Distribution (%) at 31.12.2020	Return (%)
Bonds etc. subject to low credit risk	37.9	0.6
Bonds etc. subject to high credit risk	13.0	2.1
Listed equities	26.2	5.9
Private equity	7.1	8.3
Real estate and infrastructure	9.7	-4.2
Commodities and forestry	2.3	16.5
Global macro hedge funds	2.4	7.5
Other	1.4	-0.2
Net return after currency hedging etc.		2.4

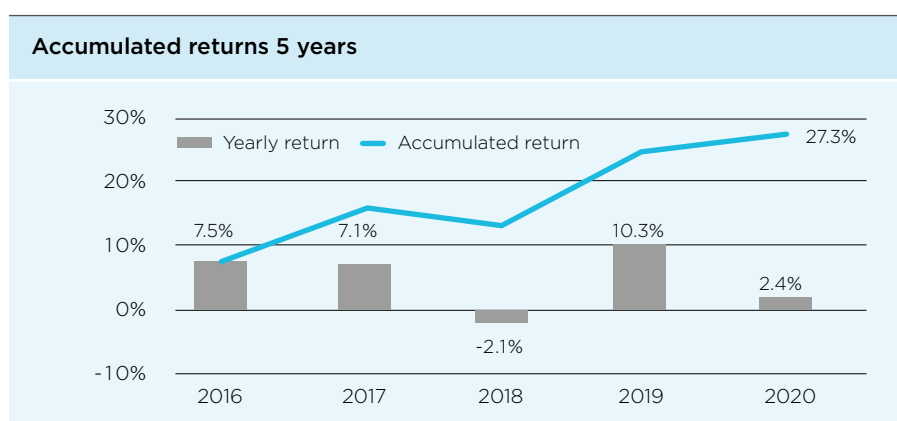
Investment return of

2.4%

AP's overall return in 2020 was DKK 237.7 million before tax on pension returns, compared with a return of DKK 920.5 million in 2019. For a more detailed specification of holdings and returns, see note 16 to the financial statements.

Five-year returns

Over the past five years, DKK 100 worth of savings has grown to just over DKK 127.



Five-year return of

27.3%

Sharpe ratio (risk-adjusted return)

The table below shows the risk-adjusted return measured for the period 2016-2020. The risk-adjusted return illustrates the performance of the return relative to the assumed risk. The risk is measured on the basis of the historical volatility (standard deviation) over a given period of time. The higher the risk-adjusted return, the better the investment. If the risk-adjusted return is calculated on the basis of the excess return relative to a risk-free interest rate (of 0%), it is referred to as the Sharpe ratio.

Sharpe ratio 2016-2020	Accumulated return	Annualised return	Annualised standard deviation	Risk-adjusted return
AP	27.3%	5.0%	6.0%	0.8

Corporate social responsibility

In addition to safeguarding our customers financially, being a part of the Danish labour market pension system, AP contributes to the sustainable development of the Danish economy and to maintaining a healthy balance between public sector benefits and labour market benefits. Labour market pensions, which constitute a significant pillar of the Danish model, have contributed to the steady development of a secure and responsible labour market since the 1980s.

AP is responsible for managing its pension schemes in a way that serves the best interest of our members. We fulfil that responsibility by staying focused on what is important, i.e. growing the value of the pension schemes through:

- low expenses
- high returns
- a flexible pension product
- personalised customer service
- comprehensive advisory tools.

AP thus performs a broad task for society. Our policy on corporate social responsibility is business-driven, which means that we seek to achieve corporate social responsibility through actions taken in our business areas. Our fundamental objective is to provide attractive pension schemes to our members, which is reflected by the fact that profit is allocated to members' pension savings.

3 initiatives

to increase
responsible
investments

Responsible investments

AP's investments are arranged so that they are socially and environmentally responsible. Our focus on the environmental, climate, social and governance impact of investments serves to reduce risks and is supportive of long-term competitive returns. Our responsible investment policy has three areas of focus:

- Social impact of investments
- Corporate governance
- Environmental and climate impact of investments.

Our approach to corporate social responsibility is governed by our ambition to comply with and implement international United Nations conventions, including the ten principles of the UN Global Compact, the OECD Guidance for Responsible Business Conduct for Institutional Investors, the climate targets of the Paris Agreement and the G20 Task Force on Climate-related Financial Disclosures (TCFD). Among other things, AP applies the TCFD's recommended method for measuring the climate-related risks of investments.

The responsible investment policy applies to all four partners of the Sampension community. The boards of directors have set up a cross-functional committee which is charged with considering the social, environmental and governance aspects of investment decisions made by the four pension providers with a view to agreeing on the principles to be included in the pension providers' policy on responsible investment.

Reduction in carbon
footprint by

21%

Significant reduction in equity portfolio's carbon footprint

In 2020, the carbon footprint of the pension fund's listed equity portfolio was significantly reduced by 21%. The carbon footprint is measured by reference to the weighted average carbon intensity, as recommended by TCFD when assessing a portfolio's emissions and climate risk exposure. In 2020, our listed equity portfolio's total CO₂ emissions were at 60,222 tonnes, relative to 104,796 tonnes in 2019.

The companies in which AP has invested continue their energy efficiency procedures and their transition away from fossil energy sources. AP has defined a target for the carbon footprint of its equity investments. CO2 emissions must fall over time and be less than the CO2 volume that would be emitted if the investments were made passively according to the general investment guidelines defined by the Board of Directors. We met both targets in 2020.

Companies of the equity portfolio which are operating within the most heavily emitting sectors are regularly screened for their ability and willingness to transition to a low-carbon economy, and this consideration forms part of our exclusion criteria. In 2020, we excluded 38 companies based on our criterion of unacceptable environmental practices. The equity portfolio's total adaptability score is measured annually and has significantly increased since 2019.

Moreover, we do not invest in companies generating a predominant share of their revenue from coal or tar sand activities – including the use of coal in utility companies' energy mix. In 2020, our limit for revenue generated from coal or tar sand activities was at 30%, and we have now reduced this limit even further to 25%. This exclusion criterion led to 170 new exclusions in 2020.

Green investments

Together with our partners in the joint management company, AP increased its green investments by some DKK 4 billion to DKK 16.5 billion in 2020. Almost two-thirds are placed in equities and forestry. Today, green investments are not clearly defined, but the EU is currently defining a common set of terminology. Here, investments are valued based on the data reported to Insurance & Pension Denmark within the framework of climate partnerships and forestry investments.

Active ownership

Together with our partners in the joint management company, AP takes a proactive approach to companies that are found not to act responsibly in an ESG context, e.g. by engaging in dialogue with the company's management and other stakeholders. Through this, we regularly raise the bar for responsibility.

Screening and critical dialogue

Listed companies are continuously monitored by a professional and independent screening provider, and the screening is based on the UN Global Compact and the OECD Guidelines for Multinational Enterprises. If a company's conduct is found to be significantly in conflict with the policy and guidelines for responsible investments, it will be assessed whether the company has acted unacceptably or acceptably, or whether it must be placed on a surveillance list pending further investigation, or whether to engage in dialogue with the company. Shares in unacceptable companies are added to the exclusion list and sold off.

In 2020, we initiated a total of 32 critical dialogues, of which eight have been concluded following a positive dialogue, after which the companies complied with the required solution to the subject of the dialogue. In this context, we screened the companies' coal and tar sand activities as well as their adaptability. At the end of 2020, 276 companies were on AP's exclusion list. The majority of these – 208 – are climate-related exclusions. The remaining 68 exclusions are related partly to the companies' environmental, social or governance (ESG) aspects, while a few companies are excluded due to international sanctions or country exclusion criteria. The exclusion list is published regularly on our website.

276

Excluded companies

Dialogue on improvement

To support the UN Sustainable Development Goals, we engage in proactive dialogues on improvement with selected portfolio companies that are considered to not adequately support the UN Sustainable Development Goals. We particularly focus on companies that are considered to underperform their peers.

The purpose of the programme for dialogue on improvement is to support companies' participation in sustainable development. The dialogue is based on themes supporting one or more specific Sustainable Development Goals. Companies are selected for dialogue if they contribute negatively to the Sustainable Development Goals, or if they are not sufficiently supporting the goals relative to the potential of their business model.

Through the programme for a dialogue on improvement, we initiated dialogues with 24 companies in 2020.

Voting

As part of the Sampension community, AP votes at the general meetings of Danish OMX C25 companies and at the general meetings of listed Danish and international companies in which the community represents 3% or more of the votes.

For other listed companies, the joint management company works towards maximising its influence in companies together with other institutional investors through networks. We always vote at general meetings of companies with which we are in an ongoing critical dialogue.

Unlisted equities are subject to the same guidelines as listed equities. Our responsible investment policy is applied during the due diligence process and implemented by way of the necessary agreements with asset managers. Directly owned portfolio properties are not let to companies that have been placed on the exclusion list. Nor does AP invest in internally managed bond or debt portfolios in companies appearing from the exclusion list.

The statutory report on corporate social responsibility (in Danish only) provides additional information on our responsible investment approach, see arkitektension.dk/om-pensionskassen/finansiel-information/aarsrapport.

Key ESG indicators provide comparability and transparency

Together with our partners in the joint management company, AP has decided to support the pension industry's request for a common standard by publishing an overview of its ESG ratios calculated according to the guidelines published by FSR - Danish Auditors, Nasdaq and the Danish Finance Society in June 2019. In the following, we only include key indicators directly related to AP, while key indicators for the joint management company are available in Sampension Liv's statutory report on corporate social responsibility (in Danish only) at sampension.dk/aarsrapport.

The key ESG indicators show, among other things:

- The carbon footprint of the equity portfolio plunged, see page 13
- Governance data show that the Board of Directors of AP represents an equal gender distribution as defined in the Danish Business Authority's guidelines
- The item Taxes paid includes tax on pension returns, which depends on the realised investment return for the year. This is the key explanation of the fluctuations. In addition, we paid a relatively lower amount of tax deducted at source in 2020, as payment of three months' tax deducted at source has been deferred to 2021 due to the Danish government's coronavirus relief packages.

	Unit	2020	2019	2018
E – Environmental data				
The listed equity portfolio's CO2 emissions				
Total emissions	Tonnes/CO2e	60,222	104,796	-
Financed emissions	Tonnes/EURm	155	222	-
Carbon intensity	Tonnes/EURm	196	252	-
Weighted average carbon intensity	Tonnes/EURm	163	207	-
S – Social data				
Taxes paid	DKKm	149	182	166
G – Governance data				
Gender diversity, Board of Directors	%	43	43	29
Board meeting attendance	%	100	94	91

For more information and definitions, see our statutory report on corporate social responsibility.

Financial results, solvency capital requirement and total capital

Profit of DKK 56.7 million

AP realised a profit of DKK 56.7 million for 2020 against a profit of DKK 186.1 million for 2019. The profit or loss for the year consists mainly of the share of the investment return for the year allocated to equity and the risk premium for the year. The profit for 2020 was in line with expectations.

Profit of

DKK **56.7** mill.

The Board of Directors proposes that the profit for the year be transferred to equity. Equity stood at DKK 2,146 million at 31 December 2020 compared with DKK 2,159 million at 31 December 2019. A total of DKK 70 million was distributed as supplementary pension benefits in 2020.

Solvency requirements and total capital

Overall, the calculated solvency capital requirement is considered to be adequate relative to the pension fund's risks. AP calculates solvency requirements in accordance with the standard model specified in the Solvency II rules.

Solvency capital requirement and total capital DKKm	31.12.2020	31.12.2019
Total capital	2,665	2,665
Solvency capital requirement (SCR)	1,024	1,040
Minimum capital requirement (MCR)	256	260
Excess capital	1,641	1,626
Solvency coverage ratio relative to SCR	260%	256%
Solvency coverage ratio relative to MCR	1041%	1026%

The solvency coverage ratio – i.e. total capital relative to the solvency capital requirement – was 260% at 31 December 2020. The increase relative to 31 December 2019 was mainly due to slightly lower solvency risk resulting from declining interest rates. The solvency coverage ratio is at a very robust level.

For more information, see 'Rapport om solvens og finansiell situation 2020', which is available (in Danish only) at arkitektpension.dk/aarsrapport. This report also provides information on risk sensitivities in accordance with section 126 of the Danish Executive Order on Financial Reports.

Provisions for pension contracts

Pension provisions are computed at market value based on assumptions of mortality and disability and probability of policy surrenders and conversions into paid-up policies. Market values are calculated using the Solvency II discount curve.

Provisions are also determined using the Danish FSA's benchmark for expected future increases in longevity. AP has determined a number of conditions for the reduction of basic rate of interest.

Pension provisions stood at DKK 7,383 million at 31 December 2020 compared with DKK 7,132 million at 31 December 2019. The increase was mainly driven by a drop in the discount rate and the transition to new market value parameters.

The bonus ratio, reflecting the bonus potential in relation to members' savings, fell to 29.5% at 31 December 2020 against 34.2% at 31 December 2019. This was driven by a decline in individual bonus potentials, especially due to a fall in interest rates.

Bonus potential and bonus ratios	31.12.2020		31.12.2019	
	DKKm	%	DKKm	%
	Bonus potentials	Bonus ratios	Bonus potentials	Bonus ratios
Collective bonus potential	367	-	371	-
Individual bonus potential	1,683	-	1,921	-
Total bonus potentials	2,049	29.5	2,292	34.2

Outlook for 2021

Interest rate of

1.5%

AP anticipates moderate growth in the number of members and premiums in 2021. Expenses per member are expected to be at the same low level as in 2020.

At 1 January 2021, the interest rate on policyholders' savings was fixed at 1.5% before tax on pension returns for conditionally guaranteed pensions.

The return on equity depends on developments in the financial markets. Based on an unchanged level of interest rates, AP expects a return on equity after tax on pension returns for 2021 of about DKK 25-40 million. The expected result is affected by the fact that no risk premium is allocated to guaranteed pension schemes from 2021. This will also result in APR of these pension schemes dropping from 0.9% to 0.7%.

Other matters

Uncertainty in recognition and measurement

In preparing the annual report, management makes a number of estimates and judgments of future events. Such estimates and judgments may influence the carrying amount of assets and liabilities. Management's estimates and judgments have the most material effect on pension provisions and on the calculation of fair values of illiquid assets such as unlisted financial instruments. See the note on accounting policies for further details on estimates and judgments. The Audit- & Risk Management Committee and the pension fund's Board of Directors review the estimates and valuation methods applied in AP's financial statements on an annual basis.

Events after the balance sheet date

No events have occurred in the period from the balance sheet date until the date of this document which may change the assessment of the Annual Report.





About the pension fund

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Management structure	20
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Management structure

AP is a multi-employer occupational pension fund owned by its members. The supreme authority of the pension fund is the general meeting.

Board of Directors

The Board of Directors consists of seven members: Four are elected by and among the pension fund's members, one is appointed by the Danish Association of Architects (AA), one is appointed by the Union of Architects and Designers (FAOD) and one is elected by the pension fund's members in general meeting following nomination by the Board of Directors. The last-mentioned board member must have the qualifications required to be an expert member of the Audit- & Risk Management Committee.

On 1 May 2020, FAOD appointed Klaus Berentsen as a new member of the Board of Directors replacing Rikke Sylow Francis.

In a membership ballot held after the pension fund's general meeting on 27 May 2020, Lene Dammand Lund was elected as a new member of the Board of Directors replacing Kirsten Sander. On 31 August 2020, the Board of Directors elected Cecilie Therese Hansen as its new chairman and Lene Dammand Lund as its new deputy chairman replacing Per Frølund Thomsen.

On 23 October 2020, AA appointed Holger Ove Bisgaard as a new member of the Board of Directors replacing Per Frølund Thomsen.

The Board of Directors held 11 board meetings, one seminar, one strategy day and one feature day in 2020.

An overview of other directorships held by the members of the Board of Directors and the Executive Board is provided on pages 23-25.

Audit- & Risk Management Committee

Pursuant to the provisions of the EU and of Danish legislation on audit committees in public-interest entities, the Board of Directors of AP has established an Audit- & Risk Management Committee.

The Audit- & Risk Management Committee is chaired by Søren Kaare-Andersen, MSc (Econ.). By virtue of his professional career and educational background, Søren Kaare-Andersen meets the qualification requirements set out in the rules on audit committees. He also complies with the requirements of independence.

The other members appointed by the Board of Directors to serve on the Audit- & Risk Management Committee in 2020 were the following:

- Rikke Sylow Francis (Board member and member of the Committee until 30 April 2020)
- Per Frølund Thomsen (Deputy Chairman and member of the Board of Directors, respectively, member of the Committee until 31 August 2020)
- Klaus Berentsen (Board member and member of the Committee as from 1 May 2020)
- Lene Dammand Lund (member and Deputy Chairman of the Board of Directors, respectively, and member of the Committee as from 31 August 2020).

The Audit- & Risk Management Committee held four meetings in 2020.

The framework for the Audit- & Risk Management Committee's work is defined in a terms of reference. Its principal duties are:

- to oversee the financial reporting process
- to prepare the Board of Directors' reviews and resolutions involving risk documents regarding the pension fund's capital, solvency and operational matters
- to oversee the effectiveness of risk management systems, internal control systems and the internal audit function
- to oversee the statutory audit of the financial statements; and
- to oversee and verify the independence of the auditors.

A whistleblowing scheme has been set up to give the employees of the joint management company a dedicated and independent channel for reporting any violation of relevant regulations by the company, including bribery and corruption, competition law, fraud and financial crime, harassment and discrimination as well as protection of personal data. The whistleblowing scheme is in compliance with new legislation on whistleblowing schemes taking effect on 1 January 2022.

Reporting to the whistleblowing scheme is made via a whistleblowing IT platform and screened by the Danish law firm Kromann Reumert, which manages the whistleblowing scheme. Subsequently, Kromann Reumert informs the chairman of the Audit- & Risk Management Committee and the person in charge of the compliance function via the IT platform. No reports were filed in 2020.

Committee for Responsible Investment

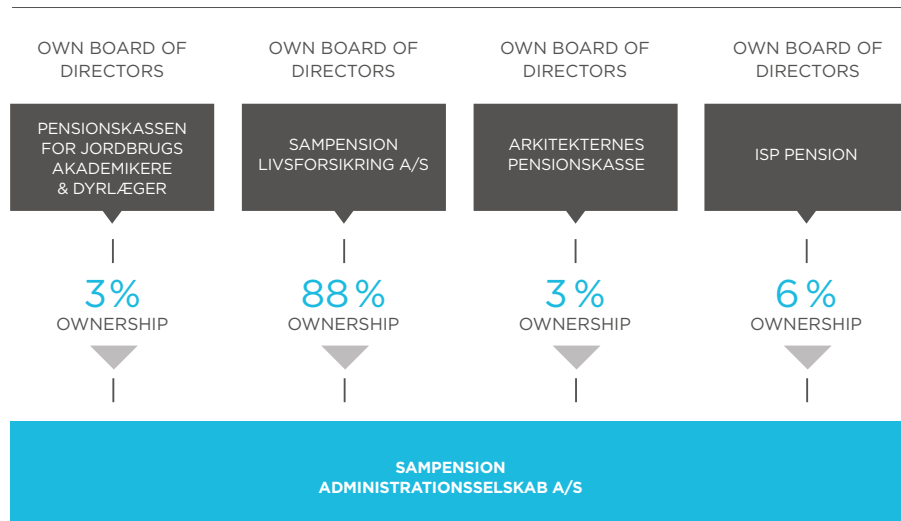
The responsible investment policy was approved by all four parties of the Sampension community. The boards of directors have set up a cross-functional committee to make proposals for ESG-related decisions. The Committee is charged with considering the environmental, social and governance aspects of investment decisions made by the four pension providers with a view to agreeing on the principles to be included in the pension providers' policy on responsible investment.

Cecilie Therese Hansen (Chairman of the Board of Directors) and Anne Marie Øhlenschläger Christiansen (Board member) represented AP on the Committee in 2020. The Committee held three meetings in 2020.

Organisation and management

AP is part of the Sampension community. In addition to AP, the Sampension community comprises the Sampension Livsforsikring Group, the Pension Fund for Agricultural Academics and Veterinary Surgeons and the Pension Fund for Technicians and Bachelors of Engineering. The group of owners of Sampension Administrationselskab A/S comprises: Sampension Livsforsikring A/S (88%), the Pension Fund for Agricultural Academics and Veterinary Surgeons (3%), the Architects' Pension Fund (3%) and the Pension Fund for Technicians and Bachelors of Engineering (6%).

The Sampension community:



▼ Ownership and administrative agreements with equal conditions

The Executive Board is in charge of the overall day-to-day management of the joint management company. The organisation also consists of five executive divisions, which are in charge of day-to-day operations and development, and two staff functions (Executive Secretariat and Communications and HR). A detailed presentation of the organisation can be found at sampension.dk/organisation.

Sampension's risk management, compliance, actuary and internal audit functions contribute to ensuring efficient management of the joint management company. In addition, the Board of Directors has decided to appoint a chief internal auditor who is in charge of the internal audits of the pension funds in the joint management company. The heads of the respective departments have been designated as key persons performing controlled functions in respect of the work of the joint management company.

Remuneration

The boards of directors of the financial enterprises managed by the joint management company have drawn up a remuneration policy that is compliant with the provisions of the EU and of Danish legislation. The purpose of the remuneration principles is to ensure that the management and the employees are remunerated in a manner that best supports the business and long-term strategic goals of the organisation.

The terms of remuneration reflect and support the joint management company's consistent ability to recruit and retain a competent and responsible management that promotes healthy and efficient risk management and that does not motivate excessive risk-taking. Furthermore, the remuneration principles are to prevent conflicts of interest for the benefit of our members.

See note 5 to the financial statements or, for more information (in Danish only), go to arkitektension.dk/bestyrelse.

Gender composition of the Board of Directors

The current composition of the Board of Directors represents an equal gender distribution with three of the members, corresponding to 42.9%, being women and four members, corresponding to 57.1%, being men. This distribution is consistent with the Danish Business Authority's guidelines on an equal gender composition of the board of directors.

We have accounted for the gender composition at other management layers in the statutory report on corporate social responsibility available at arkitektension.dk/aarsrapporter.

Management and other directorships

Executive Board

Mads Smith Hansen, Chief Executive Officer

Chief actuary

Steen Ragn

Internal audit

Gert Stubkjær, Chief Internal Auditor

Independent auditors

PwC

Statsautoriseret Revisionspartnerselskab

Strandvejen 44

2900 Hellerup

Denmark

Annual General Meeting

The Annual General Meeting will be held on 13 April 2021.

Other directorships

The following sets out the directorships in other companies held by the members of the Board of Directors and the Executive Board.

Name and basic data	Education and employment	Years on the Board	Term/ appointment	Member of AP	Other directorships and fiduciary positions
Cecilie Therese Hansen, born 1966, Chairman	Architect, MAA, client adviser with Emcon A/S	12 years	April 2018 to April 2021, elected by the members	Yes	Member of the joint committee for responsible investment of Sampension Livsforsikring A/S, the Architects' Pension Fund, the Pension Fund for Agricultural Academics and Veterinary Surgeons and the Pension Fund for Technicians and Bachelors of Engineering
Lene Dammand Lund, born 1963, Deputy Chairman	Architect, MAA, MBA, rector at the Royal Danish Academy	1 year	July 2020 to April 2023, elected by the members	Yes	Member of the board of directors of UIA2023 Member of the board of directors of BARK Rådgivning A/S Member of the Board of Directors of Bygningsarvsfonden Member of the Audit- & Risk Management Committee of the Architects' Pension Fund Council-elected member of The Royal Danish Academy of Fine Arts
Klaus Berentsen, born 1959	MSc. CEO of Klaus Berentsen ApS	1 year	May 2020 to May 2021 Appointed by the Union of Architects and Designers (FAOD)	Nej	Member of the Audit- & Risk Management Committee of the Architects' Pension Fund CEO of Klaus Berentsen ApS Owner of Klaus Berentsen ApS Owner of Stakkesvang 13, Fredericia ApS Owner of K/S Stakkesvang, Fredericia fully liable participant of Berentsen Consulting v/Klaus Berentsen
Søren Kaare-Andersen, born 1958	MSc (Econ.), CEO of the Bikuben Foundation	6 years	April 2018 to April 2021, elected at the general meeting following nomination by the Board of Directors	No	Chairman of the Audit- & Risk Management Committee of the Pension Fund for Agricultural Academics and Veterinary Surgeons Chairman of the Audit- & Risk Management Committee of the Architects' Pension Fund Chairman of the advisory committee of Nasdaq OMX Cph Chairman of the board of directors of Høbbet A/S Chairman of the board of directors of Bifi A/S Chairman of the board of directors of Roskilde Kulturservice A/S Chairman of the board of directors of Skitse ApS Chairman of the board of directors of the Bikuben Foundation New York inc. Deputy chairman of the board of directors of the Hjem til Alle alliance Deputy chairman of the board of directors of Enkotec A/S

[continued next page](#)

Name and basic data	Education and employment	Years on the Board	Term/ appointment	Member of AP	Other directorships and fiduciary positions
					Member of the board of directors of the Pension Fund for Agricultural Academics and Veterinary Surgeons Member of the board of the Museum Council of the National Museum of Denmark Member of the board of NunaFonden Member of the board of KAB Member of the board of H. P. Lorentzens Stiftelse CEO of the Bikuben Foundation
Holger Ove Bisgaard, born 1952	Architect, MAA, owner of Bisgaards kontor, external lecturer at the Royal Danish Academy	2 months	October 2020 to October 2023, Appointed by the Academic Association of Architects (AA)	Yes	Chairman of the board of directors of Komponisten Jacob Gades Legat Member of the board of representatives of the Danish Association of Architects Member of the board of directors of Nordregio Owner of Bisgaards kontor
Anne Marie Øhlenschlæger Christiansen, born 1949	Architect, MAA, owner of AplusB	8 years	June 2019 to April 2022, elected by the members	Yes	Member of the board of representatives of NRGi Member of the board of directors of the Danish Association of Architects Member of the board of representatives of the Danish Association of Architects Member of the management board of the Academic Association of Architects, East Jutland chapter Member of the board of representatives of the Danish Board of Technology Foundation Member of the joint committee for responsible investment of Sampension Livsforsikring A/S, the Architects' Pension Fund, the Pension Fund for Agricultural Academics and Veterinary Surgeons and the Pension Fund for Technicians and Bachelors of Engineering Owner of AplusB
Mads Johan Wilian Gudmand-Høyer, born 1966	Architect, MAA, cost engineer, engineering consultant, National Building Foundation	2 years	June 2019 to April 2022, elected by the members	Yes	
Mads Smith Hansen, born 1969, CEO					COO of Sampension Livsforsikring A/S COO of Sampension Administrationselskab A/S CEO of the Pension Fund for Agricultural Academics and Veterinary Surgeons



LA FRANÇAISE
REAL ESTATE PARTNERS INTERNATIONAL
LP Real Estate Partners International UK Ltd

Company Registered
40 Finsbury
15 Broad Street
London
EC2A 4EE
Tel: 020 7000 7421
www.lfi.co.uk

INVOICE		2018-019	NET TOTAL DUE
TO: [Name]	DATE OF THIS INVOICE		£4,100.00
TOTAL DUE			£4,100.00
TOTAL PAID			£0.00
TOTAL DUE			£4,100.00

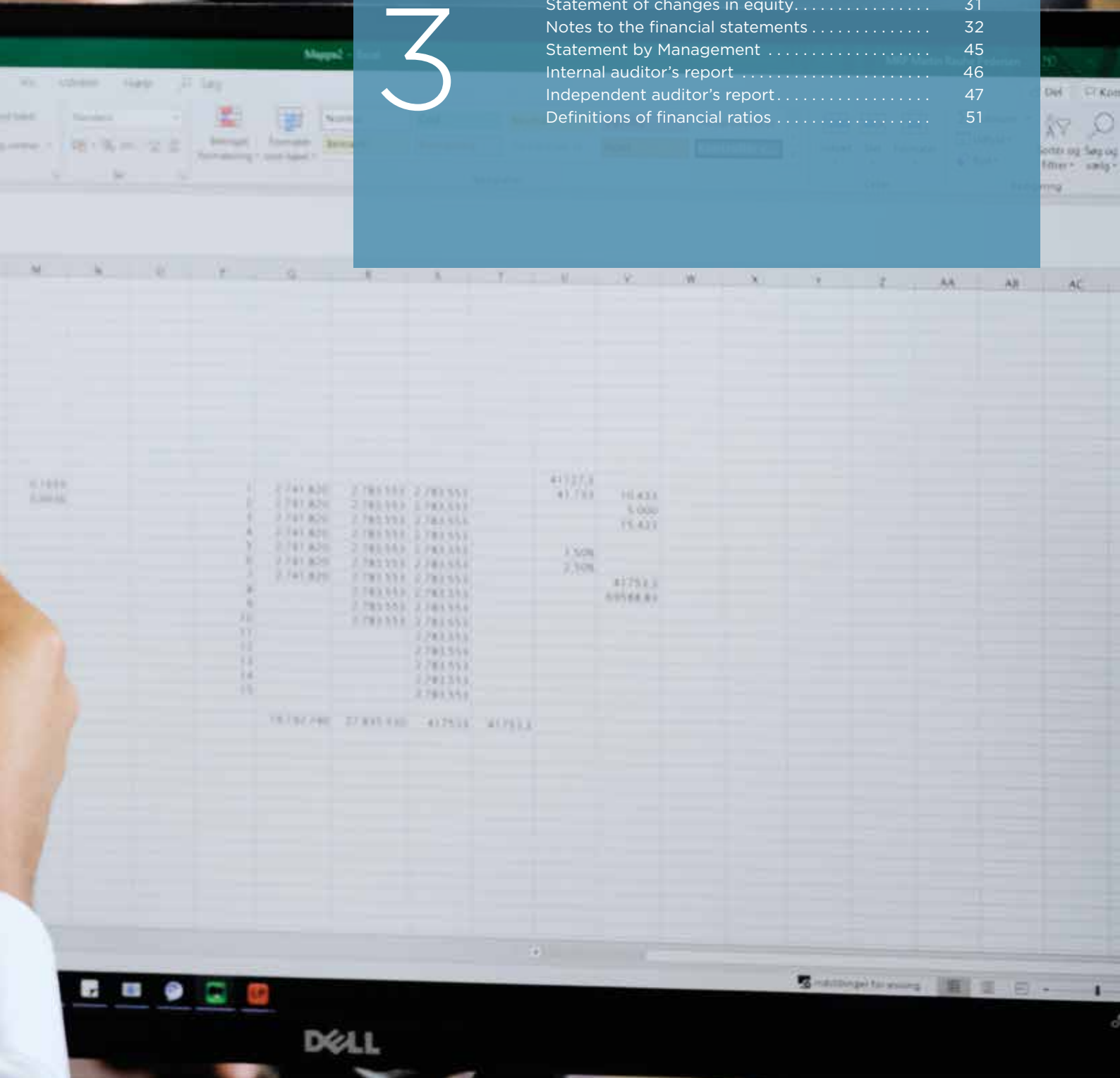
2018-019
£4,100.00
£0.00
£4,100.00

Check The Box
Self-Pay Tax Code
Invoice Due

Financial statements

3

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Pension Fund Financial statement

INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME			
Note	DKKt.	2020	2019
2	Premiums	387,355	387,735
	Premiums	387,355	387,735
3	Interest income, dividends etc.	95,372	106,356
4	Market value adjustments	168,211	840,345
	Interest expenses	-1,044	-708
	Investment management expenses	-24,860	-25,453
	Total investment return	237,680	920,540
	Tax on pension returns	-34,118	-139,133
6	Benefits paid	-264,962	-253,065
	Total insurance benefits	-264,962	-253,065
9	Total change in provisions	-250,838	-681,678
8	Change in surplus capital	-13,480	-43,482
5	Administrative expenses	-4,897	-4,867
	Total net operating expenses	-4,897	-4,867
	Transferred return on investments	-42,117	-176,183
	TECHNICAL RESULT	14,622	9,868
	Investment return on equity	52,193	209,765
	PROFIT BEFORE TAX	66,815	219,633
	Tax on pension returns for equity	-10,077	-33,582
	PROFIT FOR THE YEAR	56,738	186,051
	TOTAL OTHER COMPREHENSIVE INCOME	0	0
	NET PROFIT FOR THE YEAR	56,738	186,051

Pension Fund Financial statement (continued)

BALANCE SHEET		2020	2019
Note	DKKt.		
ASSETS			
	Investments	2,337,734	2,085,461
	Units in mutual funds	2,673,008	3,322,716
	Bonds	4,838,944	4,609,892
	Loans secured by mortgage	27,193	28,800
7	Derivative financial instruments	245,911	135,939
	Deposits with credit institutions	58,458	187,921
Total other financial investment assets		10,181,247	10,370,729
TOTAL INVESTMENT ASSETS		10,181,247	10,370,729
Total receivables arising from direct insurance contracts		6,323	5,876
Other receivables		18,085	16,441
TOTAL RECEIVABLES		24,408	22,317
Cash and cash equivalents		131,851	76,617
Other		6,250	1,180
TOTAL OTHER ASSETS		138,101	77,797
Interest and rent receivables		26,173	30,435
Other prepayments		15,941	15,412
TOTAL PREPAYMENTS		42,114	45,847
TOTAL ASSETS		10,385,870	10,516,690
EQUITY AND LIABILITIES			
Retained earnings		2,145,878	2,159,247
TOTAL EQUITY		2,145,878	2,159,247
8	Surplus capital	519,447	505,966
TOTAL SUBORDINATED LOAN CAPITAL		519,447	505,966
9	Pension provisions	7,382,939	7,132,101
TOTAL INSURANCE PROVISIONS, NET OF REINSURANCE		7,382,939	7,132,101
10	Payables to credit institutions	35,312	118,920
11	Other payables	302,294	600,456
TOTAL DEBT		337,606	719,376
TOTAL EQUITY AND LIABILITIES		10,385,870	10,516,690
1	ACCOUNTING POLICIES		
12	CONTINGENT ASSETS AND LIABILITIES		
13	CHARGES		
14	REALISED RESULT AND DISTRIBUTION OF REALISED RESULT		
15	FINANCIAL INSTRUMENTS RECOGNISED AT FAIR VALUE		
16	OVERVIEW OF ASSETS AND RETURNS		
17	FIVE-YEAR FINANCIAL HIGHLIGHTS AND RATIOS, PENSION FUND		
18	RISK MANAGEMENT		

Statement of changes in Equity

DKKt.	31.12.2020	31.12.2019
Equity at 1 January	2,159,247	2,049,813
Profit for the year	56,738	186,051
Supplementary pensions	-70,108	-76,617
Equity at 31 December	2,145,878	2,159,247
Total capital		
Equity	2,145,878	2,159,247
Surplus capital	519,447	505,966
Total	2,665,325	2,665,213

Notes to the financial statements

1 Accounting policies

GENERAL INFORMATION

The Annual Report of the pension fund has been prepared in accordance with the Danish Financial Business Act and the executive order issued by the Danish FSA on financial reports for insurance companies and multi-employer occupational pension funds (the Executive Order on Financial Reports).

The accounting policies and estimates are consistent with those applied last year.

Distribution of realised result

The following rules on the calculation and distribution of results between equity, excess capital and members have been reported to the Danish FSA:

A proportionate share of the return for the year on the investment portfolio is allocated to equity and excess capital (total capital).

An amount (risk premium) representing 0.5% of custody accounts is allocated to pension agreements with unconditional commitments and 0.25% of custody accounts is allocated to pension agreements with conditional commitments. The remainder, corresponding to the realised result for the year less the calculated amount allocated to total capital, is allocated to members.

Recognition and measurement

In the income statement, all income is recognised as earned, and all expenses are recognised as incurred. All gains and losses, value adjustments, amortisation, depreciation, impairment losses as well as reversals of amounts previously recognised in the income statement are recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the pension fund and the value of the asset

can be reliably measured. Liabilities are recognised in the balance sheet when an outflow of economic benefits from the pension fund is probable and the value of the liability can be reliably measured.

Financial instruments and derivative financial instruments are recognised at the trading date.

The pension fund does not offset financial assets and financial liabilities with the same counterparty despite being allowed to do so, as the disposal of the asset and the settlement of the liability do not happen concurrently.

On initial recognition, assets and liabilities are measured at cost, which is equal to fair value. Subsequently, assets and liabilities are primarily measured at fair value. Further details are provided under the individual items.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the annual report which confirm or invalidate affairs and conditions existing at the balance sheet date.

The measurement currency is Danish kroner. All other currencies are foreign currencies.

Accounting estimates

In preparing the financial statements, management makes a number of estimates and judgments of future circumstances which could influence the carrying amount of assets and liabilities.

The estimates and judgments are based on assumptions that management finds reasonable but which are inherently uncertain and unpredictable. The assumptions may be incomplete, and unforeseen future events or circumstances may arise.

The areas in which management's estimates and judgments have the most

material effect on the financial statements are:

- pension provisions
- investment assets measured using alternative valuation methods, which are at level 3 in the fair value hierarchy, i.e. fair value measurement is based on unobservable inputs.

The valuation of pension provisions is subject to particular uncertainty in respect of the recognised expected future life expectancy trend, determined as the Danish FSA's benchmark.

Due to their non-marketability, the pricing of level 3 investment assets is subject to greater uncertainty than level 1 and level 2 assets, whose fair values are measured on the basis of quoted prices in an active market or on the basis of observable inputs. In addition to the uncertainty related to fair value, as explained in the section on risk management, there is a risk that large volumes of non-marketable assets cannot be sold over a short period of time at the same prices as smaller volumes can. In practice, however, the pension fund is not subject to any notable risk of having to sell non-marketable assets on unfavourable terms. The value of the most marketable assets at level 1 in the fair value hierarchy exceeds the annual payment obligations by a substantial margin.

The most significant level 3 investment assets are:

- unlisted equity investments, including private equity, real estate and forestry funds, and
- unlisted bonds, including credit bonds and structured bonds.

INCOME STATEMENT

Technical result

Premiums

Premiums comprise premiums for the year and single premiums relating to the

financial year. Premium income is stated net of labour market contributions.

Investment return

Interest income and dividends, etc.

The item covers interest for the year from financial investment assets and cash and cash equivalents, indexation of index-linked bonds and dividends on equity investments, including equities and investment funds.

Market value adjustments

The item covers realised and unrealised net gains/losses on investment assets, including foreign exchange adjustments.

Foreign exchange adjustments comprise value adjustments related to exchange differences arising on translation of foreign currencies into Danish kroner.

Foreign currency assets and liabilities are translated into Danish kroner at the closing exchange rates at the balance sheet date. Transactions during the year are translated using the exchange rates at the date of transaction, and realised and unrealised foreign exchange gains and losses are recognised in the income statement.

Interest expenses

The item Interest expenses mainly covers interest expenses relating to investment activity for the financial year.

Investment management charges

The item comprises management fees, part of direct administrative expenses incurred, deposit fees, front-end fees and performance fees in relation to funds as well as securities trading costs.

Costs relating to funds etc. are recognised to the extent that information thereon has been received.

Tax on pension returns

The tax on pension returns computed for the financial year is recognised as an expense in the income statement. The tax charge comprises tax on the return allocated to individual member accounts as well as tax on the return allocated to

the collective bonus potential, equity and excess capital. Tax is calculated at 15.3% of the tax base, which is determined on the basis of the investment return for the year, with due consideration for any exempt values.

The share of the tax on pension returns allocated to equity and excess capital is computed on the basis of the share of the realised result.

Benefits paid

Benefits paid comprise the pension benefits paid in the year. However, the share of pension benefits paid allocated to equity is recognised directly in equity.

Change in pension provisions

The item comprises the change in pension provisions, including the change in collective bonus potential.

Change in excess capital

The item comprises the year's change in excess capital, which consists of individual special bonus provisions.

Pension operating expenses

Pension operating expenses comprise an administrative fee in accordance with the management contract with Sampension Administrationssselskab A/S and direct expenses incurred. Administrative expenses are divided into pension business and investment business.

Transferred return on investment

The technical result is stated net of transferred return on investments, which constitutes the investment return attributable to equity.

Tax on pension returns allocated to equity

The item comprises the share of the total tax on pension returns allocated to equity.

Other comprehensive income

Other comprehensive income is set out separately below the income statement. Other comprehensive income comprises items recognised directly in equity through Other comprehensive income.

BALANCE SHEET

Investment assets

Investments and units in mutual funds

Listed investments and units in mutual funds are measured at fair value at the balance sheet date, usually equal to the investments' quoted prices in an active market (closing price).

Unlisted investments and units in mutual funds are measured at an estimated fair value. At year end, this is normally based on fund managers' third-quarter reporting, adjusted for subsequent capital increases, capital reductions or dividends up to the reporting date. Furthermore, the value of individual investments is adjusted on a discretionary basis where the adjusted equity value is not deemed to reflect fair value.

Bonds

Listed bonds are measured at fair value at the balance sheet date, usually equal to the bonds' quoted prices in an active market (closing price). The valuation of bonds for which no quoted price in an active market exists is based on one of the following:

- quoted prices of similar bonds, adjusted for any differences
- indicative prices from investment banks
- a DCF model based on estimates of, e.g. discount curve, risk premiums, prepayments and the amount of default losses and dividends on underlying loans.

The fair value of drawn bonds is measured at present value.

Loans secured by mortgage

Loans secured by mortgage are measured at fair value at the balance sheet date. Value adjustments are made through profit or loss under Market value adjustments.

Derivative financial instruments

Derivative financial instruments are measured at fair value at the balance sheet date. For listed instruments, fair

Notes to the financial statements (continued)

value is based on the closing price, whereas for OTC instruments it is determined according to generally accepted methods based on observable inputs.

Value adjustments are made through profit or loss under Market value adjustments.

Deposits with credit institutions

Deposits with credit institutions consist of fixed-term deposits and are measured at fair value.

Receivables

Receivables are measured at nominal value less provision for bad debts. Provision for bad debts is made according to an individual assessment of each receivable.

Other assets

Cash and cash equivalents

Cash and cash equivalents consist of deposits with credit institutions. Cash and cash equivalents are measured at fair value.

Other

The item Other includes tax on pension returns receivable, among other things.

Prepayments

Prepayments comprise interest receivable and costs incurred relating to subsequent financial years. Prepayments are measured at amortised cost, which usually corresponds to nominal value.

Subordinated loan capital

Excess capital

Excess capital comprises individual special bonus provisions. Excess capital accrues interest at the same rate as equity and is included in total capital to cover the solvency capital requirement.

Excess capital is accumulated as 5% of premiums.

Pension provisions

The provisions are measured at market value according to the principles reported to the Danish FSA. The provisions are computed applying the yield curve published by EIOPA in accordance with the Solvency II Directive or a yield curve as close as possible thereto. The computation furthermore applies assumptions of mortality, disability, conversions into paid-up policies, surrender charges and an estimate of future improvements in life expectancy defined as the Danish FSA's benchmark.

The pension fund has a single contribution group.

Guaranteed benefits

Guaranteed benefits comprise obligations to pay benefits. Guaranteed benefits are calculated as the present value of the benefits guaranteed by the insurance policy (conditional or unconditional) plus the present value of the expected future administration costs and less the present value of the agreed future contributions.

Individual bonus potential

Individual bonus potential comprises obligations to pay bonuses. Individual bonus potential is calculated as the value of members' savings less the guaranteed benefits. Members' share of a decline in the value of the assets is recognised mainly by reducing the collective bonus potential, see below. If the collective bonus potential is insufficient to absorb such decline in the value of the assets, the individual bonus potential is reduced in accordance with the pension fund's reported profit allocation rules.

Collective bonus potential

The collective bonus potential comprises the members' share of the realised results not yet allocated to the individual policy.

Profit margin

The profit margin is the net present value of expected future profit in the remaining periods of pension agreements entered into by the pension fund. The profit margin on the pension fund's pension agreements is nil, as all profit is allocated to members.

Risk margin

A risk margin is added to pension provisions. The risk margin is the amount expected to be payable to another pension provider to assume the risk of the cost of settling the portfolio of pension agreements deviating from the calculated net present value of expected future cash flows. The risk margin is calculated according to the Cost of Capital method.

Liabilities

Payables to credit institutions

Payables to credit institutions include debt relating to repo transactions. Repo transactions, i.e. securities sold with a simultaneous repurchase agreement, are recognised in the balance sheet as if the securities remained part of the portfolio. The consideration received is recognised as payables to credit institutions and measured at fair value.

Other debt

Other debt, comprising debt related to purchases of bonds as a result of trades with long value dates and derivative financial instruments, is measured at fair value. The item also includes payable tax on pension returns.

FINANCIAL HIGHLIGHTS

The pension fund's financial highlights are prepared in accordance with the provisions of the Executive Order on financial reports for insurance companies and multi-employer occupational pension funds. For additional information, see Definitions of financial ratios on page 51.

Note	DKKt.	2020	2019
2	Premiums		
	Regular premiums	357,772	351,501
	Single premiums	29,582	36,234
	Total premiums	387,355	387,735
	Premiums by policyholder's address		
	Denmark	355,606	349,052
	Other EU-countries	1,699	1,718
	Other countries	467	731
	Total	357,772	351,501
	Number of policyholders	10,337	10,090
3	Interest income and dividends etc.		
	Dividends from investments	18,214	21,605
	Dividends from units in mutual funds	31	0
	Interest from bonds	75,229	75,595
	Interest on loans secured by mortgage	580	1,072
	Other interest income	251	959
	Indexation	423	0
	Interest swap instruments	644	7,123
	Total interest income, dividends, etc.	95,372	106,356
4	Market value adjustments		
	Investments	-16,150	311,511
	Units in mutual funds	116,122	716,831
	Bonds	36,662	87,102
	Loans secured by mortgage	-1,272	1,105
	Derivative financial instruments	34,009	-276,066
	Cash and demand deposits with credit institutions	-1,160	-139
	Total market value adjustments	168,211	840,345

Notes to the financial statements (continued)

Note	DKKt.	2020	2019
5	Administrative expenses		
	The AP pension fund has signed a management agreement with Sampension Administrationssselskab A/S and forms part of this joint management company. All employees are employed with and paid by Sampension Administrationssselskab A/S. The pension fund's share of these payroll costs are settled through the management fee. Remuneration payable to the Board of Directors is paid directly by the pension fund. The CEO and control function staff are also employed with the pension fund. Administrative expenses relating to pension and investment activities include the following staff costs:		
	Remuneration to the Board of Directors	-942	-937
	Total staff costs	-942	-937
	Remuneration to the Executive Board, the Board of Directors and material risk takers		
	Remuneration to the Executive Board and employees whose activities have a material impact on the company's risk profile is distributed on the basis of ownership interests to the units that form a part of and are owners of the joint management company Sampension Administrationssselskab A/S. AP has a 3% (2019: 3%) ownership interest in Sampension Administrationssselskab A/S. AP's share of CEO Hasse Jørgensen's total remuneration of DKK 1.6 million for the period 01.01-31.03.2020 (2019: DKK 6.1 million) amounts to DKK 0.049 million (2019: DKK 0.183 million). AP's share of CEO Mads Smith Hansen's total remuneration of DKK 2.8 million for the period 01.04-31.12.2020 amounts to DKK 0.085 million.		
	Board remuneration		
	Cecille Therese Hansen	-240	-211
	Lene Dammand Lund (joined 02.07.2020)	-72	-
	Søren Kaare-Andersen	-140	-140
	Anne Marie Øhlenschläger Christiansen	-102	-102
	Mads Johan Wilian Gudmand-Høyer (joined 19.05.2019)	-90	-55
	Klaus Berentsen (joined 01.05.2020)	-73	-
	Holger Ove Bisgaard (joined 23.10.2020)	-17	-
	Per Frølund Thomsen (resigned 23.10.2020)	-126	-137
	Kirsten Schmidt Sander (resigned 02.07.2020)	-45	-90
	Rikke Sylow Francis (resigned 30.04.2020)	-37	-110
	Mette Elisabeth Carstad (resigned 18.05.2019)	-	-92
		-942	-937
	Number of individuals	7	7
	Fixed salary, including pension, of employees whose activities have a material impact on the company's risk profile*)	-357	-447
	Number of individuals	7	8
	Remuneration to chief actuary		
	The fee is paid by the joint management company and settled through the management fee.	-161	-100

*) Information about variable salaries, including information about the breakdown of variable salaries on granted, paid out and deferred amounts and on the breakdown on cash and subordinated debt has been left out, as it would otherwise reveal salary information pertaining to specific individuals.

No special incentive programmes have been set up for management, nor has variable remuneration been paid. No pension commitments other than regular pension contributions are included in the above-mentioned costs.

No sign-on bonuses or severance payments have been made to members of the Executive Board, Board of Directors or to employees whose activities have a material impact on the company's risk profile.

In accordance with the Danish executive order on remuneration policy and public disclosure of salaries in financial institutions and financial holding companies, the company has disclosed certain information regarding its remuneration policy etc. Such information is provided on the company's website arkitektension.dk/om-pensionskassen/struktur-og-ledelse/bestyrelse

Note 5 continued on next page

Note 5 continued

Note	DKKt.	2020	2019
Remuneration for auditors elected by the Annual General Meeting			
PwC, Statsautoriseret Revisionspartnerselskab			
	Statutory audit	-154	-150
	Assurance engagements	-27	-27
	Tax advice	-77	-104
	Other services	0	0
		-258	-281

All amounts and rates are stated including VAT.

In addition to the statutory audit of the financial statements and other statutory reports, PwC has performed a review of the calculation of tax on pension returns and provided tax assistance and issued a report on annual expenses expressed as a percentage and as an amount.

6 Benefits paid			
	Retirement and annuity benefits	-288,207	-280,258
	Payment at surrender etc.	-40,944	-38,894
	Premium relating to group life schemes	-5,920	-10,530
	Total pension benefits paid	-335,070	-329,682
	Recognised in the income statement	-264,962	-253,065
	Distributed from equity	-70,108	-76,617
	Total benefits paid	-335,070	-329,682

7 Derivative financial instruments			
2020		Positive fair value	Negative fair value
	Interest rate hedging instruments etc.:		
	Interest swaps	130,363	-200,194
	CAP's	0	0
	Swaptions	8,744	-9,141
	CDS's	18,313	0
	Option on futures	290	0
	Total interest rate hedging instruments	157,710	-209,336
	Currency-based derivative financial instruments	88,003	-6,186
	TRS Equity	198	0
	Total derivative financial instruments	245,911	-215,522
	Fair value included in the item Derivative financial instruments	245,911	
	Fair value included in the item other debt see note 11		215,522
	Net carrying value (asset)	30,389	

Note 7 continued on next page

Notes to the financial statements (continued)

Note 7 continued

Note	DKKt.	2020	2019
	Agreements have been concluded to post collateral for derivative financial instruments		
	The pension fund has received collateral in the form of liquid bonds and cash equal to a fair value of	71,983	27,897
	The Pension fund has provided collateral in the form of liquid bonds equal to a fair value of (asset)	-24,583	-163,184
	Net collateral	47,400	-135,287

In addition, equity futures used for effective portfolio management purposes had a total exposure of DKK -147 million (2019: DKK -237 million). Bond futures used for hedging interest-rate risk on the bond portfolio had a total exposure of DKK -252 million (2019: DKK -812 million). As gain/losses are settled on current basis, the fair value is nil.

2019	Positive fair value	Negative fair value
Interest rate hedging instruments etc.:		
Interest swaps	80,306	-124,415
CAP's	1,839	-886
Swaptions	11,413	-12,912
CDS'er	20,724	0
Option on futures	106	-3,367
Total interest rate hedging instruments	114,387	-141,580
Currency-based derivative financial instruments	20,302	-81,091
TRS Equity	1,250	0
Total derivative financial instruments	135,939	-222,671
Fair value included in the item Derivative financial instruments	135,939	
Fair value included in the item other debt see note 11		222,671
Net carrying value (liability)		86,732

Note	DKKt.	2020	2019
8	Surplus capital		
	Surplus capital beginning of year	505,966	462,485
	Transferred to equity, adjustment	-10	0
	Transferred from pension provisions	19,311	19,352
	Paid out to customers	-18,904	-18,514
	Return for the year	13,084	42,644
	Total surplus capital	519,447	505,966

Note	DKKt.	2020	2019
9	Pension provisions		
	Change in gross pension provisions is specified as follows		
	Pension provisions, beginning of year	7,132,101	6,450,423
	Collective bonus potential, beginning of year	-371,393	0
	Accumulated value adjustment, beginning of year	-48,562	-45,737
	Individual bonus used to cover losses, beginning of year	0	57,317
	Retrospective provisions, beginning of year	6,712,146	6,462,004
	Total premiums	387,355	387,735
	Addition of interest after tax on pension returns	135,278	131,051
	Insurance benefits	-240,138	-224,021
	Cost addition after addition of cost bonus	-5,220	-5,677
	Risk gain/loss after addition of risk bonus	-4,307	-7,331
	Group life premiums	-6,872	-7,232
	Transferred to surplus capital	-19,311	-19,352
	Other	2,979	-5,031
	Retrospective provisions, end of year	6,961,909	6,712,146
	Accumulated value adjustment, end of year	54,348	48,562
	Collective bonus potential, end of year	366,681	371,393
	Pension provisions, end of year	7,382,939	7,132,101
	Pension provisions are specified as follows		
	Guaranteed benefits	5,272,610	4,778,796
	Individual bonus potential	1,682,555	1,921,061
	Collective bonus potential	366,681	371,393
	Risk margin	61,093	60,851
	Total pension provisions	7,382,939	7,132,101
	Profit margin on pension agreements is nil, as all profit is allocated to members.		
	Change in provisions are specified as follows		
	Change in pension provisions	-250,838	-681,678
	Change in provisions, income statement	-250,838	-681,678
	Pension provisions categorised by technical rate of interest		
	The pension fund has a single contribution group, but it categorises provisions on the basis of the nature of the guarantees.		
	Unconditional guarantees (technical rate of interest 1.5% – 4.25%)	58,867	58,219
	Conditional guarantees (technical rate of interest -0.75%)	6,957,391	6,702,488
	Pension provisions categorised by technical rate of interest	7,016,258	6,760,708
	Collective bonus potential	366,681	371,393
	Total Pension provisions	7,382,939	7,132,101
	Supplementary ratios relating to pension provisions		
	Bonus rate	29.5%	34.2%
	Return on customer funds after costs but before tax	2.2%	10.0%

Notes to the financial statements (continued)

Note	DKKt.	2020	2019
10	Payables to credit institutions		
	Repos	35,312	118,920
	Total payables to credit institutions	35,312	118,920
	From the bank loans the following fall due in the coming year	35,312	118,920
	After five years the outstanding balance will be	0	0
11	Other debt		
	Derivative financial instruments, according to note 7	215,522	222,671
	Payables relating to bond purchase	13,458	57,882
	Debt relating to settlement of repos	0	250,825
	Other financial liabilities	1,688	3,096
	Provision for tax on pension returns payable	71,627	65,983
	Total other debt	302,294	600,456
12	Contingent liabilities		
	The Company has committed itself at a later date to invest in funds etc. amounting to	772,056	1,263,022
	Total contingent liabilities	772,056	1,263,022
13	Charges		
	Margin deposits relating to futures	23,027	18,676
	Bonds sold as part of repo debt	0	118,868
	Net assets registered in cover of 'Total provisions for insurance, net of reinsurance amounting to	7,638,058	7,378,683
	The amount related to the following items:		
	Investments and units in mutual funds	3,609,274	3,772,543
	Bonds	4,028,784	3,606,140
	Total assets earmarked as security for policyholders' savings	7,638,058	7,378,683
14	Realised result and distribution of realised result		
	Investment return before tax on pension returns	237,681	920,540
	Change in market value adjustment	-5,786	-2,825
	Basic rate of interest added	49,558	-1,369
	Expense result	323	810
	Risk result	4,307	7,331
	Other	-2,979	5,031
	Realised result	283,103	929,518
	Tax on pension returns	-34,118	-139,133
	Available for allocation after tax on pension returns	248,985	790,385
	Allocated to pension savers:		
	Bonus added	-184,837	-129,682
	Transferred to collective bonus potential, interest rate groups	4,712	-371,393
	Individual bonus used to cover losses	0	-57,317
	Investment return and risk premium allocated to base capital	68,860	231,992
	Expense result in DKK	323	810
	Expense result as a percentage of technical provisions	0.005%	0.013%
	Risk result in DKK	4,307	7,331
	Risk result as a percentage of technical provisions	0.06%	0.11%

Note

15 Financial instruments recognised at fair value

Investment assets and financial liabilities are recognised at fair value or amortised cost. See Note 1. Fair value is the price obtainable in a sale of an asset or payable on transfer of a liability in an arm's length transaction between independent parties at the time of measurement. Fair value is determined on the basis of the following hierarchy:

Level 1 – quoted market prices

Quoted prices are used where an active market exists for the individual assets. Generally, the price used is the closing price at the balance sheet date.

Level 2 – observable inputs

Where the closing price of listed securities does not reflect their fair value, fair value is determined using quoted prices of similar assets or liabilities or using other valuation methodology based on observable market inputs, e.g. inputs from banks etc. For derivative financial instruments, valuation techniques based on observable market inputs such as yield curves, exchange rates, etc. are used.

Level 3 – non-observable inputs

For a significant part of investments, their valuation cannot be based on observable market data alone.

For such assets, valuation models are used which may include estimates of current market conditions and future developments thereof. The valuation methodologies applied are described in Note 1, Accounting policies.

DKKt.	2020			2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Investments	708,964	0	1,628,770	541,110	0	1,544,352
Units in mutual funds	2,673,008	0	0	3,322,716	0	0
Bonds	3,505,715	309,023	1,024,206	2,964,526	589,513	1,055,853
Loans secured by mortgage	0	0	27,193	0	0	28,800
Derivative financial instruments	0	245,911	0	0	135,939	0
Deposits with credit institutions	58,458	0	0	187,921	0	0
Total financial assets	6,946,145	554,934	2,680,168	7,016,273	725,452	2,629,005
Financial liabilities						
Repos	35,312	0	0	118,920	0	0
Derivative financial instruments	0	215,522	0	0	222,671	0
Payables relating to bond purchase and settlement of repos	13,458	0	0	308,706	0	0
Total financial liabilities	48,769	215,522	0	427,626	222,671	0
Total net assets	6,897,375	339,412	2,680,168	6,588,646	502,781	2,629,005

Specification of valuation based on Level 3

DKKt.	Value at 1 Jan. 2020	Value adjustments included in market value adjustments	Purchase/sale/settlement	Value at 31 Dec. 2020
Investments	1,544,352	-5,157	89,575	1,628,770
Bonds	1,055,853	-12,843	-18,804	1,024,206
Loans secured by mortgage	28,800	-1,272	-336	27,193
Total	2,629,005	-19,272	70,435	2,680,168
DKKt.	Value at 1 Jan. 2019	Value adjustments included in market value adjustments	Purchase/sale/settlement	Value at 31 Dec. 2019
Investments	1,248,100	110,626	185,625	1,544,352
Bonds	628,846	7,899	419,108	1,055,853
Loans secured by mortgage	53,389	1,105	-25,694	28,800
Total	1,930,335	119,631	579,039	2,629,005

For further details on valuation techniques and inputs, see Note 1 Accounting Policies.

Notes to the financial statements (continued)

Note			
16 Overview of assets and returns. pension fund			
Assets and return DKKm.	Market value		Return 2020 % p.a.
	Beg. of year	End of year	
Land and buildings	972	968	-7.2%
Listed investments	3.390	2.783	3.6%
Unlisted investments	960	1.024	3.8%
Total Investments	4.350	3.807	3.6%
Government- and mortgage bonds	2.912	3.097	-0.2%
Index-linked bonds	238	235	-1.2%
Credit bonds. investment grade and non-investment grade	1.482	1.719	1.9%
Loans etc.	29	27	-2.4%
Total bonds and loans etc.	4.661	5.078	0.5%
Other investment assets	-108	119	-41.0%
Derivative financial instruments to hedge the net change in assets and liabilities	-60	84	-
Total	9.815	10.056	2.4%

The specifications have been prepared in accordance with the requirements in section 96 of the Danish Financial Supervisory Authority's executive order on financial reports of insurance companies and therefore cannot be reconciled with the figures in the financial statements. The annual return has been calculated as a time-weighted return.

On the company website: arkitektpension.dk/om-pensionskassen/finansiel-information/aktiver the combined equity portfolio of the Architects' Pension Fund can be found.

17 Five-year financial highlights and ratios

Five-year key figures

DKKm.	2020	2019	2018	2017	2016
Premiums	387.4	387.7	373.0	351.8	336.6
Benefits	-265.0	-253.1	-258.0	-274.7	-240.6
Total investment return	237.7	920.5	-193.3	606.3	600.1
Total net operating expenses	-4.9	-4.9	-5.4	-5.1	-9.8
Technical result	14.6	9.9	4.4	7.9	40.7
Profit for the year	56.7	186.1	-34.9	130.7	62.1
Total provisions for insurance contracts	7,382.9	7,132.1	6,450.4	6,461.4	6,032.7
Surplus capital	519.4	506.0	462.5	470.5	440.4
Total equity	2,145.9	2,159.2	2,049.8	2,148.6	2,057.9
Total assets	10,385.9	10,516.7	9,542.6	9,636.8	8,690.6

Five-year financial ratios

	2020	2019	2018	2017	2016
Return ratios					
Rate of return related to average-rate products	2.4%	10.2%	-2.1%	7.1%	7.5%
Expense ratios					
Expense ratio for provisions	0.07%	0.08%	0.08%	0.08%	0.17%
Expenses in DKK. per policyholder	479	486	547	540	1,042
Return ratios					
Return on equity after tax	2.6%	8.8%	-1.7%	6.2%	8.1%
Return on surplus capital	3.0%	10.4%	-2.1%	7.5%	7.5%

Reference is made to "Definitions of financial ratios" on page 51.

18 Risk management

The pension fund's risks may be divided into two general categories:

1. Risks that are largely within the company's control and that the pension fund's risk management system regularly identifies, measures, monitors and reports on. These risks comprise investment, insurance and operational risks.
2. Risks that are beyond the company's control and are largely framework conditions, to which the pension fund's activities must be adjusted in case of changes. External risks comprise regulatory risk, reputational risk and a number of other external and strategic risks. These risks are monitored by the organisation and are reflected in the company's strategy.

The general objective of the management of investment assets and pension provisions is to maximise the return and provide the best insurance covers to members with due consideration for risk.

The Board of Directors has defined the appetite for the principal risks in policies and guidelines and thereby determined an overall level for risk exposure or hedging. Regular reporting is provided on compliance with the defined guidelines, and the Board of Directors reviews the risk profile as part of its assessment of the pension fund's own risk and solvency.

The approach to managing the principal quantifiable risk factors is set out below.

Pension schemes and total capital

In 2020, the pension fund had one common investment portfolio for its pension provisions and total capital, i.e. equity and excess capital. Effective from 2021, new members get 3 i 1 Livspension, which is a unit-linked product with lifecycle investment adjustment and the option of choosing risk profile.

The majority of the pension fund's members have average-rate pension schemes that are conditionally guaranteed, meaning that the members generally bear the financial risks.

In addition, the pension fund has a small portfolio of unconditional average-rate pension schemes, in which the risks relate to the correlation between investment assets and pension provisions.

The Board of Directors has determined the framework governing the overall investment policy and the financial risks. The overall risk is maintained at an acceptable level, partly by ensuring appropriate diversification of risk on overall asset classes, partly by establishing a framework for the overall Value-at-Risk (VaR), which is monitored through a proprietary VaR model.

The pension fund applies the Solvency II discount curve exclusive of volatility adjustment for the computation of pension provisions. The discount curve is based on market rates up until the 20-year mark, after which the curve converges towards an ultimate forward rate determined by the authorities equal to long-term inflation and real growth forecasts.

FINANCIAL RISK

Given the members' conditionally guaranteed or unit-linked pensions, the financial risks arise predominantly from the investments in which the total capital is placed.

The portfolio comprises exposures to listed equities, bonds subject to material credit risk, real estate and infrastructure as well as private equity.

Due to the pension fund's unconditionally guaranteed pensions, there is no current need to hedge the interest rate risk on the pension provisions. The interest rate risk is thus a relatively insignificant risk factor for the pension fund's total capital.

The pension fund hedges the currency risks on investments denominated in foreign currency in accordance with the guidelines of the Board of Directors when assets held in an individual currency represent more than 2% of the total investment assets. For currencies other than DKK and EUR, between 50% and 100% of the currency exposure is hedged, depending on the asset.

The pension fund invests in illiquid assets, for which valuation and risk measurement are subject to greater uncertainty than listed equities, for example. Illiquidity involves a risk that large selling transactions over a short period of time result in a loss. The Board of Directors has defined a framework for investing in illiquid asset classes that reflects these considerations. The risk management system comprising, among other things, a valuation committee was set up with a view to ensuring ongoing market valuation and management of illiquid assets.

The pension fund also has counterparty risk exposure. This is the risk of suffering losses because a counterparty to a financial contract is unable to meet its obligations. Counterparty risk is managed through the provision of collateral and limits for net outstanding balances with the relevant financial institutions. Limits have also been defined for the amount of single investments and major concentration risk.

Responsible investments

Investing responsibly is a prerequisite for being able to generate high long-term returns. Climate targets, fiscal transparency and active ownership are defining characteristics of responsible investments from the pension fund's point of view. With a view to ensuring that the pension fund invests responsibly, the Board of Directors has defined a number of requirements and conditions in policies and guidelines.

INSURANCE RISK

Insurance risk includes the risk of increased longevity, changes in disability rates, conversions into paid-up policies and surrenders. The various risk elements are analysed on an ongoing basis.

The pension fund calculates pension provisions using the Danish FSA's model for longevity assumptions based partially on the pension fund's own past experience and partially on the Danish FSA's benchmark for expected future longevity improvements.

All risk amounts are covered for own account. No reinsurance contracts have been concluded for pension insurance. The risk sum is the difference between accumulated reserves and reserves to be provided to meet future pension and insurance benefits in the event of a customer's disability or death.

OPERATIONAL RISK

The pension fund's operational risks comprise the risk of direct or indirect losses resulting from inappropriate or inadequate internal processes, human or system error or losses resulting from external events, including legal risks.

In order to reduce operational risk, AP has set up procedures to monitor and minimise risk in relation to the pension business and the investment business. AP records operational incidents on an ongoing basis and follows up and reports to the Audit- & Risk Management Committee and, in exceptional circumstances, directly to the chairmanship of the Board of Directors.

OUTSOURCING

The pension fund has outsourced tasks in critical or significant areas of activity with a view to reducing costs and gaining access to specialist competencies. The Board of Directors has set out guidelines for outsourcing of critical or significant areas of activity in order to ensure adequate management of the risks associated with outsourcing, including that outsourcing agreements and activities are handled in accordance with the Board of Directors' guidelines and applicable outsourcing legislation.

The ongoing monitoring of outsourced activities is controlled via business procedures that ensure reporting to relevant management bodies and to the Board of Directors on the supplier's performance of the task, for example in the form of regular operational reports, meetings, random checks, reports by auditors, etc.

SOLVENCY AND FINANCIAL CONDITION REPORT

The pension fund's risk management processes are described in detail in its Solvency and Financial Condition Report (SFCR). The SFCR is available to the public and can be downloaded (in Danish only) at arkitektension.dk/aarsrapport.

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the Annual Report of the Architects' Pension Fund for the financial year 1 January – 31 December 2020.

The Annual Report has been prepared in accordance with the Danish Financial Business Act.

In our opinion, the financial statements give a true and fair view of the pension fund's assets, liabilities and financial position at 31 December 2020 and of the results of the pension fund's operations for the financial year ended 31 December 2020.

In our opinion, the Management's review includes a fair review of developments in the pension fund's activities and financial position together with a description of the principal risks and uncertainties that the pension fund faces.

Hellerup, 8 March 2021

Executive Board

Mads Smith Hansen
Chief Executive Officer

/ Pernille Henriette Vastrup
Chief Financial Officer

Board of Directors

Cecilie Therese Hansen
(Chairman)

Lene Dammand Lund
(Deputy Chairman)

Anne Marie Øhlenschlæger Christiansen

Klaus Berentsen

Mads Johan Wilian Gudmand-Høyer

Søren Kaare-Andersen

Holger Ove Bisgaard

Internal auditor's report

Opinion

In our opinion, the financial statements of the Architects' Pension Fund give a true and fair view of the pension fund's assets, liabilities and financial position at 31 December 2020 and of the results of the pension fund's operations for the financial year ended 31 December 2020 in accordance with the Danish Financial Business Act in respect of the financial statements of the pension fund.

Our opinion is consistent with our long-form audit report to the Audit- & Risk Management Committee and the Board of Directors.

Basis of opinion

We have audited the financial statements of the Architects' Pension Fund for the financial year ended 31 December 2020. The financial statements are prepared in accordance with the Danish Financial Business Act.

We conducted our audit on the basis of the Executive Order of the Danish Financial Supervisory Authority on auditing financial enterprises etc. and in accordance with international standards on auditing with respect to the planning and performance of the audit procedures.

We planned and performed the audit so as to obtain reasonable assurance that the financial statements are free from material misstatement. We participated in the audit of all critical audit areas.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We have not identified any material misstatement of the Management's review.

Hellerup, 8 March 2021

Gert Stubkjær
Chief Auditor

Independent Auditor's Report

To the members of Arkitekternes Pensionskasse

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Pension Fund at 31 December 2020 and of the results of the Pension Fund's operations for the financial year 1 January - 31 December 2020 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit- & Risk Committee and the Board of Directors.

What we have audited

The Financial Statements of Arkitekternes Pensionskasse for the financial year 1 January - 31 December 2020 comprise income statement and statement of other comprehensive income, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies. Collectively referred to as the "Financial Statements".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Pension Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IEASBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment

We were first appointed auditors of Arkitekternes Pensionskasse on 4 April 2017 for the financial year 2017. We have been reappointed annually by the general assembly for a total period of uninterrupted engagement of 4 years including the financial year 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2020. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
<p>Measurement of pension provisions</p> <p>The pension funds pension provisions total DKK 7,383 million, which constitutes 71 percent of the pension funds balance sheet total.</p> <p>The provisions primarily consist of traditional life insurance provisions.</p> <p>The provisions are based on actuarial principles and involves material accounting estimates associated with the actuarial assumptions concerning the timing and amounts of future payments to the policy-holders.</p> <p>The actuarial assumptions comprise mainly yield curve used for discounting, life span, mortality, disability, probability of buy backs and paid-up policies as well as costs.</p> <p>We focused on measurement of pension provisions as the statement of the provisions is complex and subjective and thus largely based on accounting estimates.</p> <p>We refer to the mention of “accounting estimates” in note 1 and note 9, “Pension provisions”, to the Financial Statements.</p>	<p>We assessed and tested procedures and relevant internal controls established to ensure that pension provisions are measured correctly.</p> <p>During our audit, we had our own actuaries assess the actuarial models and assumptions applied by the pension fund as well as the calculations made, including the present value of future cash flows.</p> <p>We assessed and challenged the most material actuarial assumptions such as yield curve used for discounting, life span, mortality, disability, probability of buy backs, probability of conversion to paid-up policies and costs based on our experience and knowledge of the sector with a view to assessing whether these assumptions are in accordance with regulatory and accounting requirements. This comprised an assessment of the continuity of the basis for the statement of the provisions.</p>
<p>Measurement of unlisted investment assets</p> <p>Unlisted investment assets comprise investments in equity funds, infrastructure funds, unlisted shares and corporate bonds, etc and are included in the financial line items:</p> <ul style="list-style-type: none"> • Investments • Bonds <p>Unlisted investment assets are measured at an estimated fair value based on valuation models and assumptions, including accounting estimates, which are not observable by any third party and which have a material effect on the Financial Statements.</p> <p>We focused on the measurement of unlisted investments as the statement is complex and subjective and thus largely based on accounting estimates.</p> <p>We refer to the mention of “accounting estimates” in note 1 and note 15, “Financial instruments recognised at fair value”, to the Financial Statements.</p>	<p>We examined, assessed and tested procedures and relevant internal controls for the measurement of unlisted investments.</p> <p>We assessed and tested the valuation models applied by Management.</p> <p>We tested on a sample basis the consistency between the assumptions applied and the calculation of fair values.</p> <p>We tested on a sample basis the applied fair values against relevant reporting from external fund managers.</p> <p>We moreover examined and tested relevant internal controls with respect to existence, valuation, accuracy, etc. in the internal process for verification of valuations.</p> <p>We challenged the accounting estimates forming the basis of the calculation of the fair values based on our knowledge of the portfolio and the market development.</p>

Statement of management review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Business Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Pension Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
 - Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the Audit- & significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 8 March 2021
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Per Rolf Larssen
State Authorised Public Accountant
mne24822

Claus Christensen
State Authorised Public Accountant
mne33687

Definitions of financial ratios

Danish FSA financial ratios

Financial ratios have been calculated in accordance with the Danish FSA's Executive Order on financial reports for insurance companies and multi-employer occupational pension funds.

Pension

$$\text{Rate of return} = \frac{\text{Investment return on average-rate products} \times 100}{\text{Pension provisions at beginning of year} + \text{weighted average contributions and benefits paid in respect of average-rate products}}$$

The financial ratio is calculated on a money-weighted basis.

$$\text{Expenses as a percentage of provisions} = \frac{\text{Operating expenses relating to pension activities for the year} \times 100}{\text{Pension provisions at beginning of year} + \text{weighted average contributions and benefits paid in respect of average-rate products}}$$

$$\text{Expenses per policyholder (DKK)} = \frac{\text{Operating expenses relating to pension activities for the year}}{\text{Average no. of members}}$$

$$\text{Return on equity after tax} = \frac{\text{Profit after tax} \times 100}{\text{Weighted average equity}}$$

$$\text{Return on surplus capital, allocated at same rate as equity} = \frac{\text{Return on surplus capital before tax} \times 100}{\text{Weighted average surplus capital}}$$

$$\text{Solvency coverage ratio} = \frac{\text{Solvency capital requirement} \times 100}{\text{Total capital at year end}}$$

Supplementary financial ratios

$$\text{Bonus rate (\%)} = \frac{\text{Individual and collective bonus potentials at year end} \times 100}{\text{Total custody accounts at year end}}$$

$$\text{Return on customer funds after deduction of expenses and before tax} = \frac{(\text{Weighted average provisions} + \text{weighted average surplus capital} + \text{tax on pension returns}) \times 100}{\text{Pension provisions at beginning of year plus surplus capital at beginning of year} + \text{weighted average cashflows}}$$

The financial ratio expresses policyholders' total return less expenses and risk premium.

Sharpe ratio

The risk-adjusted return illustrates the performance of the return relative to the assumed risk. The risk is measured on the basis of the historical volatility (standard deviation) over a given period of time. The higher the risk-adjusted return, the better the investment. If the risk-adjusted return is calculated on the basis of the excess return relative to a risk-free interest rate, it is referred to as the Sharpe ratio.

$$\text{The risk-adjusted return} = \frac{\text{Return}}{\text{Risk}}$$

$$\text{Sharpe ratio} = \frac{\text{Return} - \text{risk-free interest rate}}{\text{Risk}}$$

