

→ ABP Quarterly Report, third quarter 2006

The investment result for the third quarter of 2006 is 3.9% (+ €7.3 billion). For the year 2006 so far, this figure is 5.4% (+ €10.5 billion), taking the total capital beyond the milestone figure of €200 billion. Despite this result, the financial position (coverage ratio) based on current market interest rates has fallen to 129.3%. This is a decline of 3.7 percentage points in relation to the previous quarter. This still means an improvement of 9.6 percentage points in relation to the end of 2005.

Main points

- ABP's capital passes the milestone of €200 billion.
- Good returns have been achieved in the third quarter, but the lower interest rate has thrown a spanner in the works.

Heerlen, 12 October 2006 – Stichting Pensioenfonds ABP reports that its investment return for the third quarter of 2006 was 3.9%. This brings the total capital of ABP at the end of the third quarter to over €201 billion. On the other hand, the value of the nominal liabilities rose by €9.9 billion, mainly as a consequence of a falling capital-market interest rate, so that on balance the coverage ratio fell from 133.0% at the end of June to 129.3% at the end of the third quarter.

In general, ABP's investment return has been good during the last three months and this has resulted in ABP's capital passing the €200 billion mark for the first time. One highlight in the investments was property, with a positive return of almost 10% for the last quarter and more than 22% for the first nine months of the year. A correction was also made with regard to the oil price, resulting in the investment category of commodities realising a negative return of over 15%. The average return on investments achieved since 1993 is 8.3%, which is amply above the long-term objective of 7%.

Unfortunately, these good achievements did not bring about an improvement in the financial position, as the lower interest rate threw a spanner in the works of the pension fund. The capital-market interest rate relevant for ABP has fallen by 40 basis points since the end of June, from 4.5% to 4.1%, which translates into an increase in the value of the liabilities of €9.9 billion.

However, ABP points out that the financial position is still in excess of the expectations formulated in the recovery plan at the end of 2005. The good investment results have resulted in ABP currently amply fulfilling the solvency requirements of the supervising authority. The requirements that ABP sets itself with regard to the financial position are however more stringent as a consequence of the ambition of following wage inflation in the government and education sectors.

Roderick Munsters (Director of ABP Investments): "We are satisfied with the investment results of recent months and of the year so far. The long-term perspective continues to be a determinant of the strategy of ABP, and we are convinced that the fund's capacity for recovery will ultimately also translate into the full recovery of the financial position."

Development of the financial position in the third quarter

The coverage ratio has fallen by 3.7 percentage points during the third quarter of 2006, despite the positive investment result. The following factors have contributed to this (in percentage points of coverage ratio):

increase in capital	+5.0 percentage points
increase in the value of liabilities due to fall in the capital-market interest rate	-7.4%
increase in the value of liabilities due to regular causes	-1.3%

on balance	-3.7 percentage points

Key figures

	2005	3 rd quarter 2006	up to and including 3 rd quarter 2006	change 2006
Fund position (Nominal coverage ratio, %)	119.7		129.3	+9.6
Capital (€ billion)	190.6		201.1	+10.5
Liabilities (€ billion)	159.2		155.6	-3.6
Return on investment portfolio (%)	12.8	3.9	5.4	
Fixed-income securities	4.3	2.7	0.7	
Shares and alternative investments	20.8	4.5	8.7	
Shares	20.8	4.1	5.7	
Real Estate	18.2	9.7	22.2	
Private equity	27.2	8.4	19.1	
Commodities	23.2	-15.4	-14.0	
Other investments	4.8	0.1	3.5	
Composition of investment portfolio (%)				
Fixed-income securities	43.2		43.2	0.0
Shares and alternative investments	53.6		53.2	-0.4
Other investments	3.2		3.6	0.4

Investment result in the third quarter of 2006

In the third quarter of 2006, the investment portfolio showed a positive return of 3.9%. The falling interest rate in the US and Europe was the primary explanation for the positive result of 2.7% for fixed-interest securities. This result means that the return on fixed-interest securities for 2006 has so far also been positive. The investment category of commodities yielded returns of -15.4% due to sharply falling oil prices. Property – particularly listed property – concluded the quarter with a positive return of 9.7%. Share markets, particularly the emerging markets, also had a positive quarterly return of 4.1%.

Economic prospects

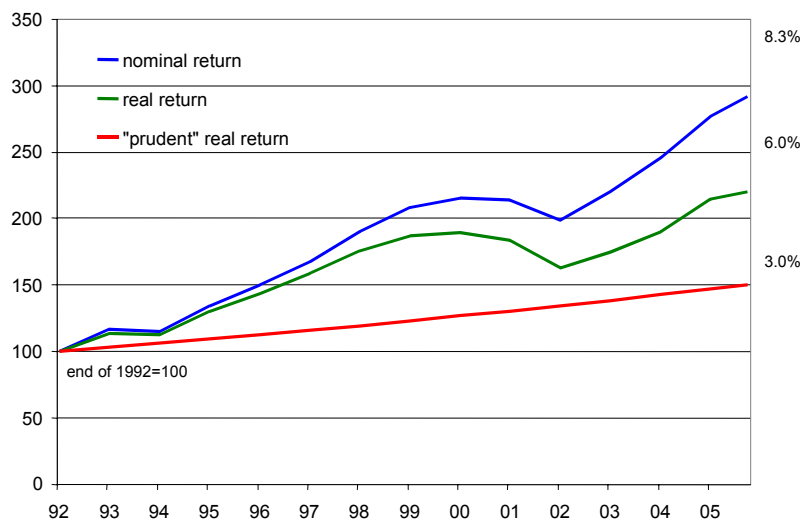
The global economy is heading for a limited growth recession, which is favourable for inflationary expectations. The American economy is starting to show ever clearer signs of “cooling off,” particularly under the influence of a weak housing market. However, the news from other parts of the world is still relatively positive. The European economies are growing better than forecast, for example, and the emerging countries are also growing strongly. Partly based on a favourable development of incomes in American families and strong profit growth in the business sector, a sharp growth recession in the US is unlikely. A more moderate rate of growth and a considerable fall in energy prices means clearly more favourable prospects for inflation.

On the financial markets, the prospect of a lower rate of growth globally has resulted in a considerable fall in the long-term interest rate. This response appears to be rather an overreaction. While it is true to say that there is a good chance that the American Federal Reserve will not raise the short-term interest rate further, there are a few interest rate increases on the horizon for the ECB and the Bank of Japan. If there is favourable growth in profits, the prospects for shares will also remain reasonably favourable. In general, we have a preference for shares and alternative investments as opposed to bonds.

Long-term return

The diagram below shows the cumulative return from 1993, both in nominal and in real terms. As at 30 September 2006, the value of every €100 invested in 1993 has grown to €292. The average annual return is 8.3%. The return after deduction of the wage inflation (real return) exceeds the 3% applied when calculating pension contributions by 3.0 percentage points during this period.

Returns 1993 – 2006 Q3



Profile

Stichting Pensioenfonds ABP (ABP) is the general pension fund for public employees in the Netherlands. ABP has 2.5 million clients and managed assets of €201 billion (as at 30 September 2006). This makes ABP the second largest pension fund in the world, after the Japanese Government Pension Investment Fund.

Disclaimer

This announcement contains future expectations. They are based on current assumptions and insights. ABP is not obliged to publicly update these as a result of future insights or events. Furthermore, ABP points out that the expressed expectations are subject to insecurities perforce, as a result of which ultimate returns can substantively deviate, for instance due to unforeseen circumstances in markets relevant to ABP, exchange rates, the interest rate level and developments in legislation. The figures in this document are based partly on estimates and have not been verified by the auditor or external actuary.

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