

## → ABP Quarterly Report, second quarter 2005

**Investment result in 2<sup>nd</sup> quarter: +4.3%; over the first half year: +5.9%. Nevertheless, based on current market interest rates, the financial position has deteriorated.**

### **Main points**

- All investment categories (except for commodities) made a positive contribution to the return of 4.3% in the second quarter.
- The market value of pension liabilities rose due to further interest-rate falls.
- The coverage ratio based on market value fell to 115.5%, but rose based on a 4% assumed interest rate to 122.6%.

**Heerlen, 14 July 2005 – Stichting Pensioenfonds ABP announces that its investment return for the first six months of 2005 was 5.9%, of which 4.3% was realised in the second quarter. This meant a rise of €10.2 billion in fund assets in the first half of the year. However, there was also a rise of €15.8 billion in nominal liabilities.**

The rise in the liabilities is almost completely attributable to the transition to calculating the liabilities on the basis of current market interest rates: the relevant market interest rate fell from 4.2% at year-end 2004 to 3.6% at the end of the second quarter. Based on this market interest rate, the financial position of the fund, in terms of the coverage ratio measurement, deteriorated by 5.8 percentage points compared with the end of December. However, using the old method of the fixed assumed interest rate of 4%, the financial position improved by 5.0 percentage points.

Dick Sluimers, Chief Financial Officer of ABP, said: 'The recent figures show the positive and negative sides of the current fall in interest rates. Fixed-income securities are making a positive contribution to assets, but the value of the liabilities is rising and therefore, on balance, the coverage ratio falls. ABP will use the possibilities offered within the new financial assessment framework (FTK) to reduce the susceptibility of its premium policy to interest rates, but nevertheless, developments in interest rates will remain an important factor in the financial policy of the pension fund.'

## Most important key figures

	year end 2004	2 <sup>nd</sup> quarter 2005	up to end of 2 <sup>nd</sup> quarter 2005	change in 2005
<b>Return on investment portfolio (%)</b>				
<b>Fixed-income securities</b>	<b>6.8</b>	<b>3.4</b>	<b>4.1</b>	
<b>Shares and alternative investments</b>	<b>16.0</b>	<b>5.4</b>	<b>7.9</b>	
• Shares	12.4	4.7	6.9	
• Real estate	30.5	11.1	9.0	
• Private equity	11.2	7.2	10.5	
• Commodities	18.8	-5.2	16.3	
<b>Other investments</b>	<b>5.8</b>	<b>0.3</b>	<b>2.6</b>	
<b>Total</b>	<b>11.5</b>	<b>4.3</b>	<b>5.9</b>	
<b>Composition of investment portfolio (%)</b>				
Fixed-income securities	43		42	
Shares and alternative investments	55		55	
Other investments	2		3	
<b>Fund position (%)</b>				
Coverage ratio (nominal market interest rate)	121.3		115.5	-5.8
Coverage ratio (fixed 4% assumed interest rate)	117.6		122.6	5.0
<b>Assets (€billion)</b>	<b>168.1</b>		<b>178.3</b>	<b>10.2</b>
<b>Liabilities (€billion)</b>				
Liabilities (nominal market interest rate)	138.6		154.4	15.8
Liabilities (fixed 4% interest rate)	142.9		145.4	2.5

## Investment result in second quarter of 2005

The return on the investment portfolio in the second quarter was 4.3% or €7.5 billion, bringing the half-year return to 5.9%, which is in excess of expectations. All of the strategic investment categories of Stichting Pensioenfond ABP made a positive contribution to the result. The shares and real estate segment performed well, particularly the real estate portfolio, which generated a result of 11% in the second quarter. This was somewhat surprising, as the return on this portfolio has been exceptionally high for the past two years as well. With respect to fixed-income securities, the positive return was spread equally over

government bonds, corporate bonds and index-linked bonds. The total results are now being squeezed somewhat because ABP fully hedges the exchange-rate risk against the US Dollar. The coverage of this risk forms part of the strategic investment policy. During the past half year the US Dollar rose by 12% in respect of the Euro.

## **Economic prospects**

As expected, world economic growth is slower than last year, when developments were extremely favourable. The US and Asia are expected to remain the most important contributors to growth, with the imbalances between both regions continuing to increase. There is no prospect of a more balanced relationship. It is unclear how long this development can continue and when the limits of the fundability of the American deficits or of political acceptance in the US will be reached. During the past half year, the economic performance of the Eurozone has again been disappointing, and there is unlikely to be a swift improvement. The region continues to struggle with the rapid changes in the global economy and the need to adapt its economic and political institutions accordingly. Low consumer confidence forms a major obstacle to recovery.

The global economy has a dynamic supply of a large category of goods and services, but at the same time demand is vulnerable and is spread unevenly across the regions. Businesses remain cautious in their investment policies, while domestic demand in many of the rapidly expanding Asian countries is lagging behind growth.

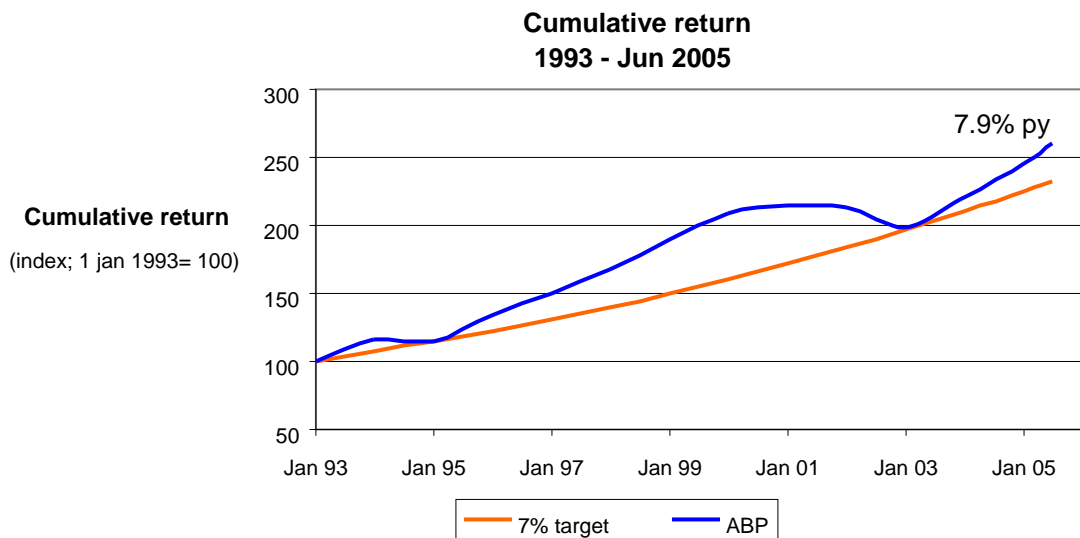
The threat of deficient demand and, in conjunction with it, the perception of low inflation risks, has placed capital-market interest rates under pressure throughout the world.

During recent quarters, the fall in capital-market interest rates in many countries has also contributed to positive effects on assets in both the housing and financial markets, thereby supporting the demand side in those countries. These effects are expected to decrease, which will make growth more strongly dependent upon the (continuing) recovery of the labour market. The high profitability of businesses and (recent) developments in the US economy mean that some degree of optimism is justified in this respect. One major risk is that there may be a further rise in the oil price, which is already high; this could place disposable household incomes under pressure.

Given the current (in many cases high) valuations in financial markets and a further tightening of US monetary policy, ABP's short to medium-term expectation is of a moderately positive return on its broadly spread investment portfolio. The normalisation of the levels of Eurozone capital-market interest rates, which is still expected to take place at some point, will require higher domestic growth and a less imbalanced global economy.

## Long-term return

The graph below shows the cumulative return since 1993. The value of each €100 invested in 1993 had grown to €260 by the end of June 2005. The average annual return of 7.9% exceeded the annual target of 7%.



## Profile

Stichting Pensioenfond ABP (ABP) is the sectoral pension fund for employers and employees amongst governmental and educational institutions in the Netherlands. ABP has 2.6 million customers and assets of €178 billion under management (as at 30 June 2005), making it the second largest fund in the world.

## Disclaimer

This report contains expectations for the future, based on current understandings and assumptions. ABP does not accept any obligation to provide public updates in response to future insights or events. ABP would also point out that the expectations expressed are necessarily susceptible to uncertainties, which means that the returns actually realised may vary significantly, for instance due to unforeseen circumstances in ABP's relevant markets, exchange rates, interest rates and developments in statute and regulations. The figures in this document are based partly on estimates and have not been verified by the auditor or the external actuary.

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