

→ Quarterly review ABP, fourth quarter 2005

Investment results for fourth quarter: +1.8%; for the whole of 2005 +12.8%. The financial position (coverage ratio) on the basis of the current market rates is 120.2% (123.3% excl. charge relating to longevity trend).

Main points

- Highest actual annual return since 1995.
- The high return translates in the first instance to an improved fund position, despite a fall in the capital market interest rate. The weighting of the liabilities by around 2.5% required by the financial regulator due to the longevity trend has resulted ultimately in a slight fall in the coverage ratio.
- Financial recovery in 2006 or 2007 depends mainly on developments in interest rates.

Heerlen, 18 January 2006 – The Stichting Pensioenfonds ABP (ABP Pension Fund Foundation) has announced that the return on investments for 2005 was 12.8%, 1.8 percentage points of which were realised in the fourth quarter. This return corresponds with a € 22.6 billion increase in the fund assets over 2005. The value of the nominal liabilities over this period increased by € 20 billion, including the charge of € 3.9 billion due to the longevity trend.

An eventful year ended with a good return of 12.8%. After three less successful years at the beginning of the decade, with an average return of –1.6%, ABP has now enjoyed three good years with an average return of 11.8%.

The high return translates in the first instance into an improvement in the fund position compared to the end of 2004. This is a limited improvement, however, due especially to the fact that the capital market interest rate has fallen further, causing a strong increase in the market value of the obligations. Over half of the €20 billion total increase in the value of the liabilities (€ 11.2 billion) is attributable to the fall in interest rates. The coverage ratio now offered has fallen compared to last year on balance, because the FTK transitional regulations require ABP to increase the value of its liabilities by around 2.5% due to the fact that we are living longer lives (longevity trend).

The target for 2006 is to continue payment of the shortfall in reserves in line with the recovery plan. This means that ABP will strive to achieve a coverage ratio of 126% by the end of 2006. Whether this will succeed depends very much on movements in the interest rate. An increase of around 0.3 percentage points would be enough to recover the financial position, even if the total investment return is 0% and assuming a moderate increase in wages in 2006. If, however, the interest remains at the present level or falls below it, then this target will probably not be reached until 2007.

Roderick Munsters (Director of ABP Asset Management): *“ABP is satisfied with the return achieved and will make every effort to continue to achieve good results in 2006. The good returns are partly due to the strong business profit recovery, continued low interest rates and the high cost of raw materials. Continued growth will also mean that we will face a bigger increase in labour costs and slightly higher interest rates. The prognosis for the year ahead is therefore moderately positive.”*

Key figures

	2004	4 th quarter 2005	Up to and including 4 th quarter 2005	change 2005
Returns on investment portfolio (%)				
Fixed-income securities	6.8	-0.2	4.3	
Shares and property	16.0	3.7	20.8	
Shares	12.4	4.7	20.8	
Property funds	30.5	3.7	18.1	
Private equity	11.2	6.9	27.2	
Commodities	18.8	-12.4	23.2	
Other investments	5.8	1.0	4.6	
Total	11.5	1.8	12.8	
Composition of investment portfolio (%)				
Fixed-income securities	43		43	
Shares and alternatives	55		54	-1
Other investments	2		3	+1
Fund position (%)				
Coverage ratio (nominal market rate of interest)	121.3		120.2	-1.1
Coverage ratio (fixed 4% nominal interest rate)	117.6		125.9	8.3
Assets (€billion)	168.1		190.7	22.6
Liabilities (€billion)				
Liabilities (nominal market rate of interest)	138.6		158.6	20.0
Liabilities (fixed 4% nominal interest rate)	142.9		151.4	8.5

Investment return for fourth quarter of 2005

The return on the investment portfolio over the fourth quarter was 1.8%. This means that the return for the whole of 2005 was 12.8%, which easily surpassed expectations. The results for the fourth quarter differ according to the asset category in question. Virtually the whole segment of shares and alternatives performed well in the fourth quarter. An exception to this, however, is commodities, which achieved a significantly negative result in the last quarter. Over the whole of 2005, the return on fixed-income securities fell short of that achieved in 2004. The reasons for this were a lower level of capital market interest rates, an interest rate rise in the USA, a gentler fall in interest rates in Europe and a less favourable growth in the 'spread' on business loans compared to 2004. Property performed very well again in 2005. Shares and private equity profited from the continuing particularly favourable growth in company profits. Favourable news from European and Japanese industry helped the markets in these regions to achieve significant profits. The higher price of oil and increasing US interest rates contributed once again to very high returns on commodities.

The total investment return has been pushed down because ABP entirely covered the exchange rate risk on the US dollar. The cover for this risk is part of the strategic investment policy. Over the last year, the US dollar rose by 15% against the euro. The total return without the 100% exchange rate risk cover for the US dollar would have been 19.3%.

Economic prospects

It is expected that the growth in the world economy will once more exceed 4% in 2006. However, there will be a more balanced spread than in previous years. Whilst the US economy will probably lose a little of its strength, there are clear signs of recovery in Europe and Japan. The emerging markets appear to be continuing to catch up. A world economy that has been going at full speed for several years already is usually accompanied by an increasing pressure on costs, but this is much less the case now. Thanks to the competition from countries in South-East Asia in particular, western manufacturers have little power to set prices and inflation is expected to remain low.

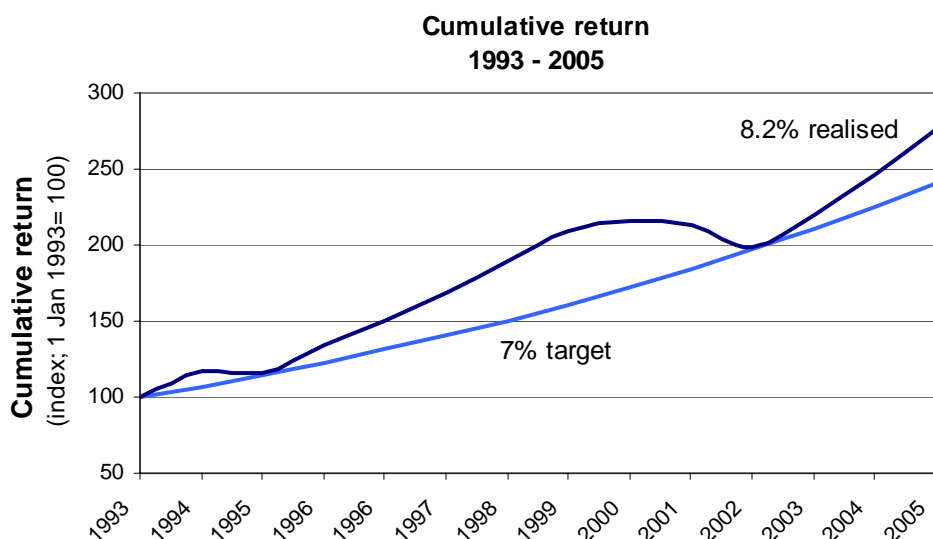
The strong increase in savings surpluses in Asian countries, oil-producing economies and industries are largely invested in markets for fixed-income securities and thereby exercise a downward pressure on the (actual) interest rate. In the mid-term, a move towards a greater balance within the world economy is likely, thereby reducing this effect.

Whilst the monetary constraints imposed by the US Central Bank appear to be almost at an end, the ECB has cautiously begun to increase the policy interest rates. Japan will also soon begin monetary narrowing. A higher short-term interest rate in Europe and elsewhere is expected to force up the long-term interest rate. Since the prognosis is for a moderate level of inflation, the increase in the long-term interest rates will probably remain small in 2006.

The growth in the shortfall in the current account of the US and the threat of a heavy fall in the dollar remain, as in previous years, the most significant risks. The increase in the burden of debt on the US consumer is also a reason for concern.

Long-term return

The graph below shows the cumulative return since 1993. The value of each €100 invested in 1993 had grown to €277 by the end of 2005. The average annual return of 8.2% exceeded the annual target of 7%.



PROFILE

The Stichting Pensioenfonds ABP (ABP) is the pension fund for employers and employees in governmental and educational institutions in the Netherlands. ABP has 2.5 million customers and assets of €191 billion under management (as at 31 December 2005), making it the second largest fund in the world, behind the Japanese Government Pension Investment Fund.

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This report contains future expectations, based on current understandings and assumptions. ABP does not accept any obligation to provide public updates in response to future insights or events. ABP also points 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 legislation and regulations. 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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