

## → Press release ABP, first half-year 2007

**The investment result in the 1<sup>st</sup> half-year of 2007 amounted to 3.1%, bringing ABP's assets to over €215 billion. This result has helped to raise the financial position (coverage ratio) on the basis of current market interest rates to 148.8%. That is a rise of 15.3 percentage points compared to year-end 2006.**

### Main points

- Return in the first half-year of 2007 is 3.1%
- Cover ratio of 148.8%, as a result of which full indexation becomes possible.
- Fixed-income securities under pressure by rising interest rates, yet real assets continue to perform well.

**Heerlen, 19 July 2007 – Stichting Pensioenfonds ABP reports that its investment return in the first half-year of 2007 has reached 3.1%. That means that ABP's assets now represent an amount of more than € 215 billion. During this period, the value of the nominal liabilities dropped by nearly € 12 billion. As a result of addition of interest, liabilities increased in value, however, the increased capital market interest rate caused an overall substantial decline in the value of the liabilities. As a result of the increased capital and decreased liabilities, the coverage ratio in the first six months of 2007 rose by over 15 percentage points to 148.8%.**

Despite the increase in interest rates, the ABP investment portfolio performed well. In the first half-year of 2007, the ABP investment portfolio achieved a return of 3.1%. The main positive contributors were shares (9.2%), Private Equity (+18.2%) and Hedge Funds (+8.5%). On the other hand, the return on fixed-interest securities and real estate was slightly negative (-0.7% and -1.9% respectively)

As a result of the investment performance and the increased capital market interest rate, the financial position has improved considerably. The cover ratio on the basis of the current market interest rates is 148.8%. Therefore, ABP amply meets the requirements of the supervising authority whilst heading for full indexation. The limit above which ABP is able to index in full is 140%.

Dick Sluimers (chairman of the ABP Executive Board): "The development of the financial position for the first half-year is satisfactory. If the situation remains as it is, the ABP Board is likely to grant full indexation at the end of the year, which decision fulfils our ambition to structurally adjust pensions to the wage trends in the governmental and educational sectors."

## Development of the financial position

During the first six months of 2007, the coverage ratio rose by 15.3 percentage points. The following factors contributed to the improvement of the position (in percentage points of coverage ratio):

	<b>2007</b>
increase in asstes thanks to return on investments	+3.1
increase in liabilities due to addition of interest and indexation	-2.1
decrease in liabilities value thanks to an increase in capital market interest rate	+8.9
denominator effect	+5.4
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on balance	+15.3

The coverage ratio mainly increased thanks to the return of 3.1% achieved on the capital. Liabilities increased due to the addition of interest, but this was largely compensated by the drop in liabilities as a result of the increased capital market interest rate from 4.25% to 4.90%. The denominator effect is caused by the capital exceeding liabilities. It reflects the achieved return on the financial buffer of ABP to a significant extent.

## Return on investments – first half year of 2007

In the first six months of 2007, the ABP investment portfolio achieved a return of 3.1%. Of this percentage, 1.1% can be attributed to an active investment policy. The three-year average return currently stands at 10.9%.

The largest contribution to the absolute return was made by shares. Favourable macro economic figures, quarterly business figures exceeding expectation and positive merger and takeover news generated a return on shares of 9.2%. In addition, share markets were supported by the large liquidity flows, partly thanks to the still relatively low interest rate levels. Emerging share markets rose highest (15.6%). Within illiquid assets, private equity (+18.2%) and hedge funds (+8.5%) performed particularly well. However, the return on particularly listed property failed to meet expectations (-1.9%), mainly as a result of the adverse month of June. Reason for this are the concerns surrounding the quality of the so-called sub prime mortgages in the United States and the rising interest rate which makes financing property more expensive. The risen interest rates further caused a negative return in the investment category of fixed-income securities. As from the end of last year, the interest rate sensitivity of the pension liabilities is partly hedged in the investment portfolio by extending the duration. Due to the rise in the interest rate the effect of the interest rate hedging was negative. Hedging of the dollar risk in the investment portfolio has a positive effect on the return. In relation to the Euro, the American dollar weakened by approximately 2.5% this year.

## Key figures

	2006		until 1 <sup>st</sup> six months of 2007	change 2007
<b>Fund position (Nominal coverage ratio. %)</b>	133.5		148.8	+15.3
<b>Capital (€billion)</b>	208.9		215.4	+6.5
<b>Liabilities (€billion)</b>	156.4		144.8	-11.6
<b>Return on investment portfolio (%)</b>	9.5		3.1	
<b>Fixed-income securities</b>	0.9		-0.7	
<b>Shares and property</b>	17.0		7.1	
• Shares	13.5		9.2	
• Real estate and property funds	35.7		-1.9	
• Private equity	29.8		18.2	
• Commodities	-18.5		6.4	
<b>Hedge Funds (incl. other investments)</b>	9.5		8.5	
<b>Composition of investment portfolio (%)</b>				
Fixed-income securities	41.8		40.8	-1.0
Shares and property	54.4		54.6	+0.2
Hedge Funds (incl. other investments)	3.8		4.6	+0.8
<b>Development in the financial markets</b>				
Capital market interest rate (%)	4.25		4.90	+0.65

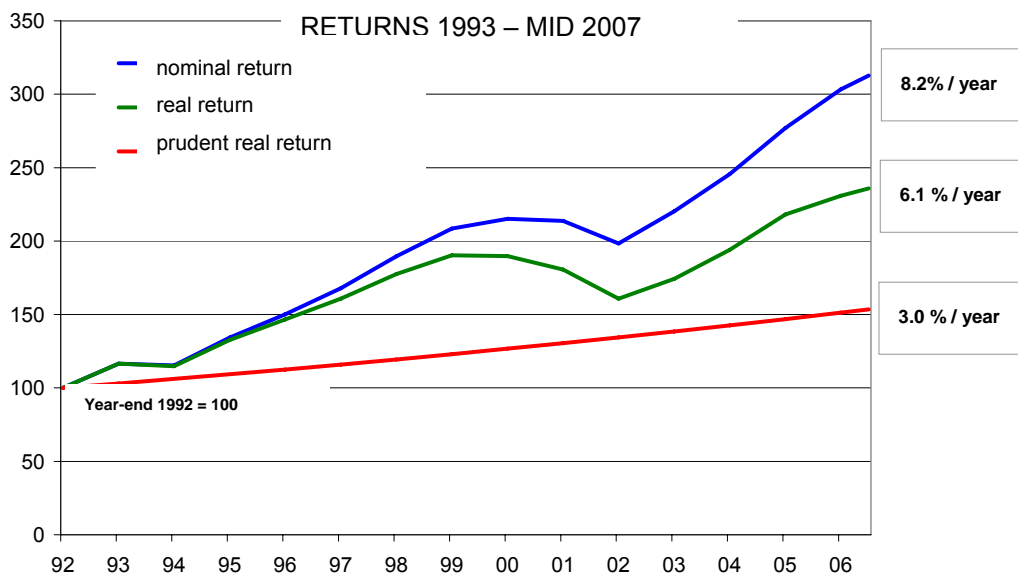
### Economic prospects

A recent rise in interest rates in the bond markets is in line with a more favourable outlook on the world economy. The negative effects of the drop in the American housing market so far remain limited to the construction sector and hardly affect the rest of the American economy. At the same time, growth in Asia remains strong and the performance of the Eurozone countries too exceeds expectations. All in all, global growth for this year is in line with the solid performances of the past years. The fear for a rising inflation remains nevertheless limited, thanks to fierce international competition from cheap labour countries and substantial confidence in the policies of the central banks.

The European Central Bank recently increased interest rates once more and hinted to foresee further tightening of the policy in the months to come. The effect on the long-term interest rate is expected to be limited. The 10-year interest rate in the Eurozone currently ranges between 4.5 - 5%, a level that can be deemed as balanced within the prevailing macro economic regime. Share markets strongly capitalise on the sustained substantial growth of profits in the business sector and news on further mergers and takeovers. The latter is financed mainly by taking on debts, which can involve risks in the long-term. In the months to come, shares and property are likely to perform better than state bonds. However, the increase in debt financing can cause a slight negative effect on the performance of corporate bonds.

### Long-term return

The diagram below shows the cumulative return from 1993, both in nominal and in real terms. As from 30 June 2007, the value of every € 100 invested in 1993 has grown to € 313. The average annual return is 8.2%. The return after deduction of the wage inflation (real return) for this period is 3.1 percentage points above the 3% applied when calculating pension contributions.



**PROFILE**

Stichting Pensioenfonds ABP (ABP) is the general pension fund for public employees in the Netherlands. ABP has 2.7 million clients and assets under management of over € 215 billion (as at 30 June 2007). This makes ABP one of the three biggest pension funds in the world.

**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 partly based on estimates and have not been verified by the accountant and external actuary.

**For more information:**

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