

PERS INFO

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Quarterly review ABP, third quarter 2004

ABP pension assets grow by 10 billion euros

Main points:

- Return up to end of September: 6.5%
- Return over third quarter: 2.1%
- Slight rise in coverage ratio to 113%

Heerlen, 14 October -- Stichting Pensioenfonds ABP announces that it realised an investment return of 6.5% over the first nine months of this year. The return over the third quarter was + 2.1%. Fund assets grew by €10 billion over the first nine months of 2004, from €150 billion to €160 billion. Over the same period, liabilities rose by €3 billion, from €138 billion to €141 billion. The coverage ratio (according to the current 4% norm) rose over this period from 109% to 113%.

The Managing Director of ABP Investments, Jean Frijns, on the subject of the return and on market prospects:

“The third quarter was dominated by rising oil prices and concerns over stalling growth in the global economy. This played a part in dampening the mood of the stock market. Capital-market interest rates fell, somewhat contrary to expectations. Taken together with a narrowing of credit spreads, this resulted in positive returns on the fixed income securities portfolio. Investments in real estate and commodities also performed well, which means that the total return for 2004 could average out at a good, positive figure. Institutional investors currently find themselves in a so-called "low return environment", with moderately positive expectations for the medium term. It looks as if this investment environment, with moderate growth prospects, will also stretch to 2005.”

Most important key figures

	year end 2003	3 rd quarter 2004	up to end of 3 rd quarter 2004	change in 2004
Fund position (%) (coverage ratio at 4% nominal interest rate)	109	113		+4
Assets (€billion)	150.2	160.0		+9.8
Liabilities (€billion)	137.8	141.4		+3.6
Returns on investment portfolio* (%)				
Fixed-income securities	0.3	3.1	4.8	
Equity and alternatives	9.7	1.5	8.4	
• Shares	12.6	-0.9	4.9	
• Real estate	14.2	6.9	16.7	
• Private equity	1.5	0.2	5.5	
• Commodities	-0.7	16.7	32.0	
Other investments	5.2	0.7	2.3	
Total	11.0	2.1	6.5	
Composition of investment portfolio (%)				
Fixed-income securities	46	43		-3
Equity and alternatives	52	53		+1
Other investments	2	4		+2

* the breakdown of the return includes the results of US dollar hedging

The return over the third quarter was 2.1%, achieved as a result of stable returns of fixed-income securities and the somewhat varied performances of alternative investments. Shares achieved – 0.9%; in contrast, the commodities portfolio and real estate realised returns of 16.7% and 6.9% respectively.

Market prospects: moderately positive expectations

ABP's investment policy assumes a relatively favourable economic scenario over the medium term. Nevertheless, expectations for the major investment categories are moderate. Due to the strong profit recovery, shares are less expensive than a year ago, but in historical terms prices are not low. Furthermore, the transition to a somewhat higher level of interest rates is yet to take place, which will temporarily squeeze returns on the (bonds) portfolio. It is expected that shares will be able to generate a positive return, higher than the nominal economic growth rate. Small positive returns are expected on bonds, indexed loans and property.

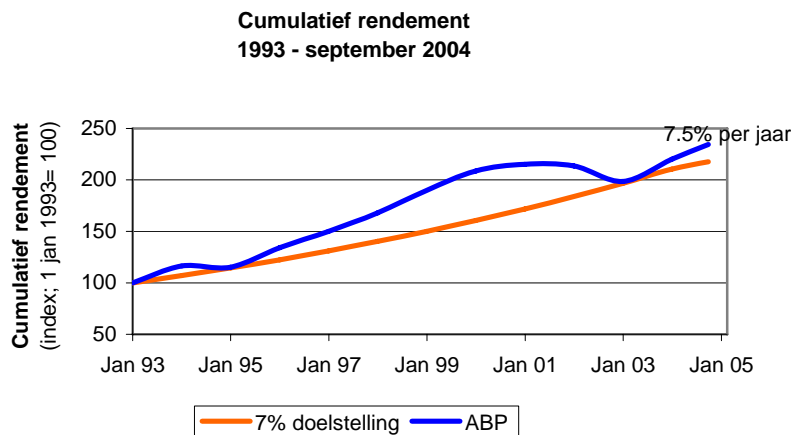
Under our central economic scenario, good business profitability gradually translates into greater employment. Inflation remains low, allowing central banks to continue supporting the recovery. The supply side of the world economy is currently dynamic but the demand side is vulnerable. Monetary policy, particularly in the United States, has been aimed at supporting the demand side and thereby stimulating the labour market. Throughout the world this has contributed to families increasing their debts, high valuations in the major investment categories and - compared to the eighties and nineties - low real interest rates.

The major economic risks are, first of all, on the demand side. High volumes of debt and a hesitant recovery in employment pose a threat to further growth in consumption. Secondly there is a risk that continuously low interest rates could spark an unexpectedly strong rise in inflation, which could force the central banks to impose a tight squeeze on monetary policy. Finally, an increase in geopolitical tensions could be accompanied by further rises in energy prices, greater aversion to risk amongst entrepreneurs and a sharp slowdown in productivity (stagflation shock).

The disappointing demand side poses the greatest threat to the pension fund, as it could cause interest rates to reach record lows. Rising inflationary tension would initially damage assets. A stagflation shock would hit fund assets hardest, because it would cause substantial falls in the values of both shares and bonds.

Long-term return

The graph below shows the cumulative return since 1993. The value of each € 100 invested in 1993 had grown to approximately € 235 by the end of September 2004. The average annual return was 7.5% and therefore above ABP's target of 7%.



Profile

Stichting Pensioenfonds ABP (ABP) is the sectoral pension fund for employers and employees amongst governmental and educational institutions in the Netherlands. ABP has 2.5 million customers and assets under management of € 160 billion (as at 30 September 2004). This makes ABP the second largest pension fund in the world.

DISCLAIMER

This report contains expectations for the future, based on current insights 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 external actuary.

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