

→ ABP Quarterly Report, second quarter 2006

Investment result in 2nd quarter 2006: -1.5%; over 2006 until today: 1.4%. The financial position (coverage ratio) on the basis of current market interest rates is 133.0%. This is an improvement of 1.7 percentage points in relation to the previous quarter, and of 13.3 percentage points in relation to the end of 2005.

Main points

- Following a strong first quarter, exceeding expectations, the financial position of ABP in the second quarter has improved further due to an increase in the capital-market interest rate.
- Further improvement of the financial position is necessary for full indexation.

Heerlen, 12 July 2006 – Stichting Pensioenfonds ABP reports that its investment return for the second quarter of 2006 was -1.5%. This brings the total capital of ABP at the end of the second quarter to €194 billion. On the other hand, the value of the nominal liabilities fell by €3.8 billion as a consequence of an increasing capital-market interest rate, so that on balance the coverage ratio rose further from 131.3% at the end of March to 133.0% at the end of the second quarter.

The continuing positive development of the financial position shows ABP's capacity for recovery.

ABP expects the improvement of the financial position to continue further. If this is the case, full indexation of the pensions for 2007 is a possibility. The development of the capital market interest rate in particular will be a decisive factor. The capital-market interest rate rose further over the past few months, but the long term balance level appears not to have been reached as yet. A coverage ratio of approximately 140% will be necessary for the full adjustment of the pensions to the salary increased within the government and education sectors. With a further increase in the interest rate by approximately 30bp or an additional investment return of about 4%, the upper limit of the indexation scale is brought within reach.

Dick Sluimers (Finance Director and acting chairman of the executive board): "We are satisfied with the continuing recovery of ABP's financial position. Despite the slight correction on financial markets over the last quarter, we are well on course with an average real return of almost 6% since 1992."

Development of the financial position in the second quarter

The financial position has improved further over the second quarter of 2006 with a total of 1.7 percentage points, despite the negative investment result. The following factors have contributed to this (in percentage points of coverage ratio):

reduction of capital	-1.7%
a reduction in VPV* as a result of an increase in capital-market interest rate	+5.1%
an increase in VPV due to regular causes	-1.7%

on balance	+1.7%

* VPV = Pension Liabilities Provision

Key figures

	2005	2 nd quarter 2006	up to and including 2 nd quarter 2006	change 2006
Fund position (Nominal coverage ratio, %)	119.7		133.0	+13.3
Capital (€ billion)	190.6		193.8	+3.2
Liabilities (€ billion)	159.2		145.7	-13.5
Return on investment portfolio (%)	12.8	-1.5	1.4	
Fixed-income securities	4.3	-0.6	-2.0	
Shares and alternative investments	20.8	-2.5	4.0	
Shares	20.8	-4.1	1.5	
Property and property funds	18.2	-0.9	11.3	
Private equity	27.2	5.9	9.9	
Commodities	23.2	4.9	1.7	
Other investments	4.8	0.6	3.5	
Composition of investment portfolio (%)				
Fixed-income securities	43.2		43.6	+0.4
Shares and alternative investments	53.6		52.4	-1.2
Other investments	3.2		4.0	+0.8

Investment result in second quarter of 2006

In the second quarter of 2006, the investment portfolio showed a negative return. Under the influence of global interest rate forecasts, the portfolio of shares has lost 4.1% of its value, the largest part of which was in emerging markets (3.7% of the total portfolio). The portfolio with fixed-income securities suffered primarily under the increased interest rate in the United States, resulting in a loss of 0.6% returns in the second quarter. The investments in Private Equity and Commodities were positive peaks with 5.9% and 4.9% returns respectively. The strategy to fully cover the US dollar risk brought ABP a 2% return in the second quarter.

Salary development

This quarterly report assumes a general development in salaries, forming the basis for the indexation of the pensions: 2.65%. The agreements are incorporated into this, such as those agreements made so far within the Collective Labour Agreements prior to 2006. These agreements cover 85% of the Government & Education sector. The previous quarterly report was still based on the CPB's estimated figure of 1.80% for the year 2006 for the Government & Education sector.

Economic prospects

The world economy is approaching a crossroads, and it is by no means certain which route will be taken. A limited growth recession – with a stabilisation of inflation in the long term – appears to be the most likely, but less favourable scenarios are certainly not ruled out. The increased uncertainty has led to greater volatility on the financial markets over the last quarter, resulting in risk-bearing investments like shares and bonds in particular seeing their prices fall in emerging countries.

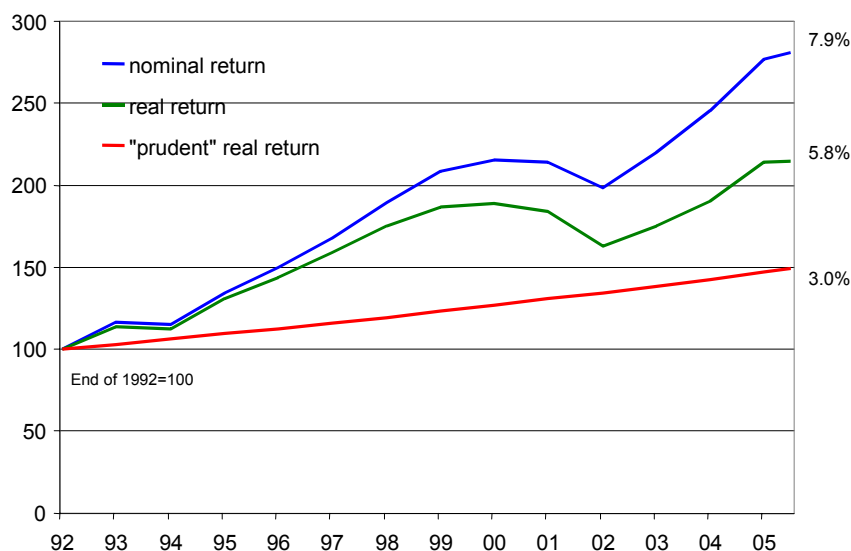
We expect this unrest to continue over the coming months. In the United States, there are clear signs of the economy 'cooling,' but at the same time inflation is slowly rising further. The central bank has now raised the policy interest rate to 5.25%, and the end of the series of interest rate increases seems to be in sight. With the prospect of a growth recession, it is unlikely that the low American rate will increase much further.

It is a different story for the Euro-zone and Japan. While the recovery in both economies continues unabated, the monetary policy is still broad. Both the ECB and the Bank of Japan have started to reduce the stimulus. We expect this to go hand in hand with the further normalisation of the low interest rate in both regions. The market correction in the second quarter has slightly improved the valuation on various markets, but despite this the prospects for shares and alternative investments remain moderately positive.

Long-term return

The diagram below shows the cumulative return from 1993, both in nominal and in real terms. As at 30 June 2006, the value of every €100 invested in 1993 had grown to €281. The average annual return is 7.9%. The return after deduction of the wage inflation (real return) exceeds the estimated 3% by 2.8 percentage points during this period; this is applied when calculating pension contributions.

Returns 1993 – 2006 Q2



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 €194 billion (as at 30 June 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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