

→ ABP Quarterly Report, second quarter 2004

ABP return in 1st half of year: 4.2%, second quarter: 0%, coverage ratio: 112%

Main points:

- Return up to end of second quarter 2004: +4.2%, second quarter: 0%
- Coverage ratio (given nominal interest rate of 4%) at 112%
- Real interest rates fell further during the past six months
- ABP amongst best performing pension funds in the world in terms of service and costs

Heerlen, 15 July – Pension Fund ABP achieved a return of 4.2% in the first half of 2004. This was mainly due to good returns on shares and property. The figure was squeezed by a slight negative return on fixed income securities in the second quarter. On balance the second quarter made no contribution to the return.

During the second quarter, fund assets remained stable at the level of €157 billion. Liabilities rose by €1 billion, from €139 billion to €140 billion. The coverage ratio (calculated in accordance with the Pensions and Insurance Board standard at 4%) rose in the first quarter from 109% to 112% and remained stable at 112% in the second quarter.

Most important key figures

	year end 2003	2 nd quarter 2004	up to end of 2 nd quarter 2004	change in 2004
Fund position (%) (coverage ratio at 4% nominal interest rate)	109	112	112	+3
Assets (€billion)	150.2	156.9	156.9	+6.7
Liabilities (€billion)	137.8	140.1	140.1	+2.3
Returns on investment portfolio * (%)				
Fixed income securities		-1.3	1.7	
Shares and property		1.0	6.9	
• Shares		1.2	6.0	
• Property and property funds		-0.7	9.1	
• Private equity		3.3	5.4	
• Commodities		2.6	13.1	
Other investments		-1.1	1.5	
Total	11.0	0	4.2	
Composition of investment portfolio (%)				
Fixed income securities	46	43	43	-3
Shares and property	52	54	54	+2
Other investments	2	3	3	1

* The breakdown of the returns includes the results of US Dollar hedging.

The total return for the first half of the year, amounting to 4.2%, was realised entirely during the first quarter. No contribution was made by the second quarter. April produced a negative return of approximately -1.5% and small positive returns were achieved in both May and June.

Within the assets, commodities continued to fare well, resulting in returns exceeding 10% over the first six months of this year. The return on property and shares was moderate in the second quarter but good over the first half of the year.

Nominal interest rates in the US rose substantially, while European interest rates also rose somewhat. This resulted in a negative return in the fixed income securities investment category in the second quarter. The result for the first half of the year remained positive, at 1.7%.

In the beginning of the quarter the Euro decreased in value against the dollar. During the start of April, the value of the Euro was \$1.23, while it decreased to \$1.18 mid May. In the second half of Q2 the Euro regained strength against the dollar, to reach 1.22 on 30 June.

ABP's currency policy is to hedge its investments fully to cover changes in the value of the dollar.

The limited increase in the liabilities is based on a zero change in contractual pay.

Current developments

Future of pre-pension

The debate on the future of pre-pension is now fully underway. Recently the Cabinet submitted a Bill on the tax treatment of pre-pension to the Council of State. The Bill will be considered in the autumn by the House of Representatives of the States General. ABP considers it very important for the Cabinet and the social partners to reach a decision that is broadly supported in society, preserving the solidarity principle as an essential pillar upholding the pension system, while providing for transitional periods and the essential leeway upon introduction.

John Neervens, Chairman of the ABP Management Council, says on this matter: "We must find an answer to population ageing while also maintaining scope for the individual preferences of sectors and employees. That will require creative solutions, with the best option being a gradual transition to a new scenario."

Pension fund governance

Pension fund governance - good management - is also on the agenda. ABP is taking an active approach to this debate; in view of their social function, pension funds are under an obligation to do so. The resulting outcome must take account of the variety of pension funds in practice. For ABP the guiding principles in this respect are transparency, accountability, checks and balances, expertise and independence. ABP supports the further strengthening of the position of participants, for instance in the form of an ABP Council. The fund aims to have its plans for such participation ready in the autumn.

Performance of ABP in terms of service and costs

ABP's performance in terms of service and costs has been evaluated and subjected to comparison internationally. ABP achieved a score of 8.6 for service, the highest in the Netherlands, while also belonging to the 25% of the participating pension funds having the lowest costs. This was reported in the recently published #CEM Pension Management Benchmarking Analysis for 2003 (*CEM Pensioen Beheer Benchmarking Analyse 2003*)#. Around 50 international pension funds, including eight Dutch funds, participated in the study.

Market prospects

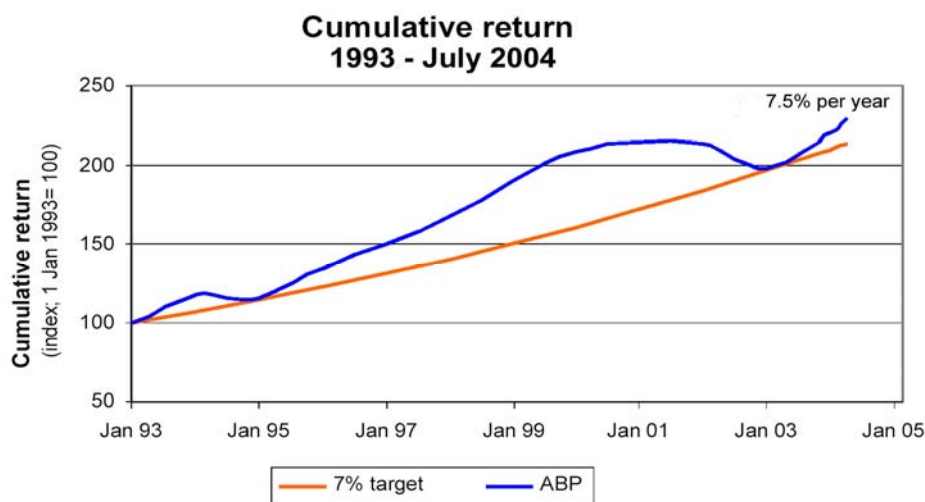
The combination of increasing economic growth, low interest rates and inflation, together with government policy stimuli in the US has had a positive effect on the financial markets over the past 15 months. Now that economic growth has clearly picked up across the world and inflation seems to be rising somewhat, monetary policy will gradually become tighter. As a result long-term interest rates may increase further, which will help to moderate economic growth. The high growth in company profits is also expected to level off now that the economic cycle is moving from a period of recovery into a period of consolidation. In the coming quarters a somewhat tougher investment climate might therefore be expected.

In itself a degree of normalisation and broadening of the economic recovery is a positive development. A more balanced world economy offers favourable prospects over the long term. However, the risks in this

transition should not be underestimated. Valuation levels on the financial markets are precise and leave little leeway for disappointments in terms of growth, interest rates or inflation. International tensions and the threat of terrorism remain a source of concern, recently for instance due to their effect in pushing up the oil price.

Long-term returns

The graph below shows the cumulative return since 1993. The value of each € 100 invested in 1993 had grown to approximately € 230 by June 2004. The average annual return was 7.5% and therefore above the annual target of 7%.



Profile

Stichting Pensioenfonds ABP (ABP) is the sectoral pension fund for employers and employees amongst government and educational institutions in the Netherlands. ABP has 2.5 million customers and assets under management of € 157 billion (as at 30 June 2004). This makes ABP the second largest 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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