

- Quarterly review ABP, third quarter 2005

Investment result for 3rd quarter +4.6%, for the first three quarters +10.8%. Based on current market rates, the financial position has improved since the previous quarter.

Main points

- All investment categories contribute to the 4.6% return of the third quarter
- The market value of the pension liabilities remains relatively stable as a result of steady interest rates
- Coverage ratio based on market value rises by 4 percentage points compared to the previous quarter to almost 120%

Heerlen, 13 October 2005 – Stichting Pensioenfonds ABP has announced that the return on investments for the first 9 months of 2005 was 10.8%, 4.6 percentage points of which were realised in the third quarter. This return corresponds with a €8.6 billion increase in the fund assets. The value of the nominal liabilities increased by €1.4 billion compared to three months ago.

While the first half of 2005 showed a fall in interest rates, the interest rate relevant to the liabilities (30-year government bonds) was still at the same low level at the end of the third quarter as it was three months previously (3.60%). This time, the effects of the sound investment results on the financial position were therefore not disrupted by a fall in interest rates. This means a significant improvement of the nominal coverage ratio from 116% (end of the second quarter) to 120% (end of the third quarter).

Roderick Munsters, Investment Director, commented on the good investment results: *“Over the past 2½ years, the ABP investment portfolio has yielded a 39.8% return. This very favourable return is good news, but it will probably be difficult to maintain. As a result of a strong profit recovery and a sharp fall in both capital market interest rates and risk premiums, the financial markets have been prospering. If the world economy continues to grow, albeit moderately, we cannot expect a repeat of this situation.”*

Key figures

	Year end 2004	3 rd qtr. 2005	up to & incl. 3 rd qtr. 2005	Change 2005
Returns on investment portfolio (%) *				
Fixed-income securities	6.8	0.4	4.5	
Shares and alternative investments	16.0	8.0	16.6	
• Shares	12.4	8.0	15.4	
• Real estate	30.5	4.4	13.9	
• Private equity	11.2	7.7	18.9	
• Commodities	18.8	20.9	40.7	
Other investments	5.8	1.0	3.6	
Total	11.5	4.6	10.8	
* all figures incl. currency hedging				
Composition of investment portfolio (%)				
Fixed-income securities	43		40	
Shares and alternative investments	55		57	
Other investments	2		3	
Fund position (%)				
Coverage ratio (nominal market interest rate)	121.3		119.7	-1.6
Coverage ratio (fixed 4% nominal interest rate)	117.6		127.3	9.7
Capital (€ billion)	168.1		186.9	18.8
Liabilities (€ billion)				
Liabilities (nominal market rate of interest)	138.6		156.1	17.5
Liabilities (fixed 4% nominal interest rate)	142.9		146.8	3.9

Return on investments – third quarter of 2005

The return on the investment portfolio for the third quarter was high: 4.6%. As a result, the return after three quarters is 10.8%, which exceeds expectations. All strategic ABP investment categories contributed positively to the result. The shares and alternative investments segment is performing well, particularly the commodities portfolio which generated a 20.9% result in the third quarter. The return on this portfolio has been exceptionally high over the past two years as well: 67.1%. The shares portfolio yielded an 8% return in the third quarter. Each region shows a completely different picture: the European share market is more profitable than the American market when it comes to local currencies. The emerging markets yielded the highest result at 18%. The total return on fixed-income securities was relatively low in the third quarter. This was caused by low interest rate levels at the beginning of the quarter, combined with lower bond prices as a result of a slight increase in the interest rates relevant to these investments. Non-state loans (such as corporate bonds and secured bonds) showed a slightly higher result than state loans. Index-linked bonds performed better than normal state loans. ABP fully hedges the exchange rate risk on the US dollar.

The developments of liabilities

The third quarter showed a modest development of pension liabilities, since the nominal market interest rate remained unchanged. This means that pension liabilities were only changed by virtue of the regular adjustments as a result of the accrual in the third quarter (€1.0 billion), the allocated indexation (€0.3 billion), the actuarial increase (€1.5 billion) and the benefits to be released (- €1.4 billion). On balance, this comes down to a €1.4 billion increase of the pension liabilities in the third quarter.

Economic prospects

Despite regional imbalances and the high price of oil, the world economy has been developing relatively well. Consumer expenditure in the US is supported by healthy developments on the labour market. The Japanese economy has been positively surprising and the chances for a more sustainable recovery have increased. The Eurozone should benefit from the improved position of the business sector and global economic growth, although the risks of disappointments remain.

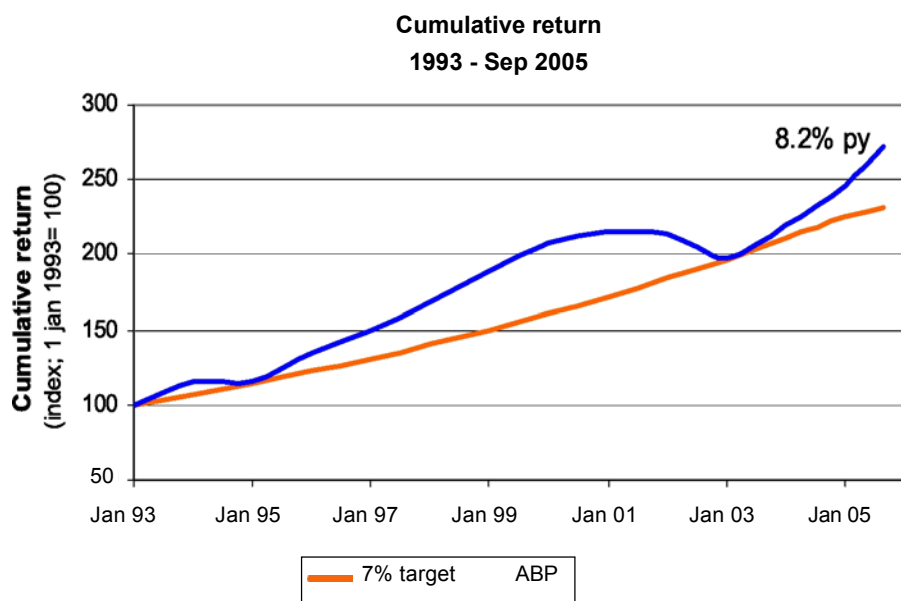
The financial markets have shown positive returns. This can be explained by the fact that, despite the American narrowing-focused monetary policy, the financial conditions around the world remain encouraging: the capital market interest rate is still low, as are credit spreads, while shares have yielded a good return. An undesirable side effect is that the imbalances have grown and the debt positions of families have worsened.

In the medium to long term, more monetary narrowing is expected to result in rising capital market interest rates. Rising inflation risks in the US will be taken into account, while business sector demand for capital will grow. This justifies a defensive attitude towards interest rate-sensitive investments such as property and government and corporate bonds, particularly in the US. On the share market a profit growth, which is expected to level out, will provide opposition. Nevertheless, shares form a relatively attractive investment category due to healthy micro-economic ratios and a favourable relative valuation.

A deterioration on the demand side of the world economy and potential consequences of continued monetary narrowing by the Federal Reserve remain significant risks.

Long-term return

The diagram below shows the cumulative return from 1993. As at the end of September 2005, the value of every €100 invested in 1993 had grown to €272. At 8.2%, the average annual return by far exceeds the annual target of 7%.



Profile

Stichting Pensioenfonds ABP (ABP) is the general pension fund for Dutch employers and employees in the Dutch governmental and educational sectors. ABP has 2.5 million clients and assets under management of €187 billion (as at 30 September 2005). This makes ABP the second largest fund 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 performance, 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.

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You can also find this quarterly review on our website: www.abp.nl