

# Quarterly report

Second quarter of 2009

- Cover ratio at 100%
- Assets under management €74.7 billion
- Second-quarter return 8.4%
- Recovery plan approved

Pensioenfonds Zorg en Welzijn (the pension fund for the care and welfare sector) recorded a return on investments of 8.4% in the second quarter, taking the total return for the first half of the year to 3.4%. Prices in the financial markets rose substantially, particularly in April and May. The assets under management at the end of the second quarter amounted to €74.7 billion.

The average long-term interest rate that is used to determine the level of pension liabilities rose to 3.98% in the second quarter. This resulted overall in a cover ratio of 100% for Pensioenfonds Zorg en Welzijn as at 30 June 2009.

**Peter Borgdorff, managing director of Pensioenfonds Zorg en Welzijn:** "There is still a long way to go to restore a healthy level of solvency in the pension fund, but we are pleased that the cover ratio is back at around 100% due to the higher return and the rise in long-term interest rates."

Pensioenfonds Zorg en Welzijn's recovery plan has been approved by the Dutch central bank (DNB). This plan sets out how the pension fund intends to raise its cover ratio at least to the minimum required level of 105% within five years. The main points of the recovery plan are:

- No indexation if cover ratio is below 105% (not permitted);
- Unchanged contribution, including 2.5% recovery loading;
- Intention to provide 50% of indexation when cover ratio exceeds 105%;
- Investment policy unchanged;
- Pension scheme unchanged.

## Key figures\*

	Yearly average since 1971	2009 cumulative	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Cover ratio (quarter end)			100%	89%	92%	125%	143%
Total return	7.7%	3.4%	8.4%	-4.5%	-13.2%	-5.5%	0.2%

\* The total return includes the result of the interest-rate hedge. The 2009 figures are provisional.

## Cover ratio

The cover ratio rose from 92% to 100% in the first half of 2009. It fell to 89% in the first quarter but recovered strongly in the second quarter.

Two percentage points of the rise in the first half of the year is attributable to the combined effect of the return, the addition of interest to the provision for pension liabilities and the hedging of the interest-rate risk. Pensioenfonds Zorg en Welzijn has a policy of hedging part of the interest-rate risk on its liabilities. The rise in the long-term interest rate from 3.55% at the beginning of this year to 3.98% had a positive impact of six percentage points on the cover ratio.

## Investment portfolio and return

	<b>Investments</b>		<b>Return</b>	
	<b>as of 30-06-2009</b>		<b>YTD 2009</b>	<b>Q2 2009</b>
	<b>€ mln</b>	<b>in %</b>	<b>in %</b>	<b>in %</b>
<b>Equities</b>	<b>30,205</b>	<b>40.4%</b>	<b>6.8%</b>	<b>15.0%</b>
Liquid equities	25,239	33.8%	8.0%	17.2%
Private Equity	4,267	5.7%	0.4%	1.8%
Structured Credit	699	0.9%	2.6%	24.3%
<b>Bonds</b>	<b>10,774</b>	<b>14.4%</b>	<b>6.8%</b>	<b>6.2%</b>
Government bonds and credits	8,060	10.8%	3.6%	4.3%
High income bonds	2,714	3.6%	18.5%	12.6%
<b>Inflation linked bonds</b>	<b>13,164</b>	<b>17.6%</b>	<b>4.3%</b>	<b>3.6%</b>
<b>Commodities</b>	<b>4,926</b>	<b>6.6%</b>	<b>11.9%</b>	<b>24.5%</b>
<b>Real estate &amp; Infrastructure</b>	<b>11,732</b>	<b>15.7%</b>	<b>-0.8%</b>	<b>6.4%</b>
Public real estate	4,951	6.6%	6.0%	25.1%
Private real estate	5,849	7.8%	-4.9%	-3.8%
Infrastructure	823	1.1%	-9.4%	-3.6%
<b>Portfolio of Strategies</b>	<b>2,937</b>	<b>3.9%</b>	<b>1.3%</b>	<b>2.5%</b>
<b>Total</b>	<b>74,730</b>	<b>100.0%</b>	<b>3.4%</b>	<b>8.4%</b>

The above table shows the main investment categories. A number of small categories, including Cash, are not shown in the table. As a result, the totals are not exactly equal to the sum of the various investment categories. The total return includes the contribution from the interest hedge.

The concerns about deflation have rapidly given way to concerns about inflation. The rapid rise in public debt and the large amounts of money pumped into the markets by the central banks have increased the likelihood of inflation. As a result, interest rates have risen.

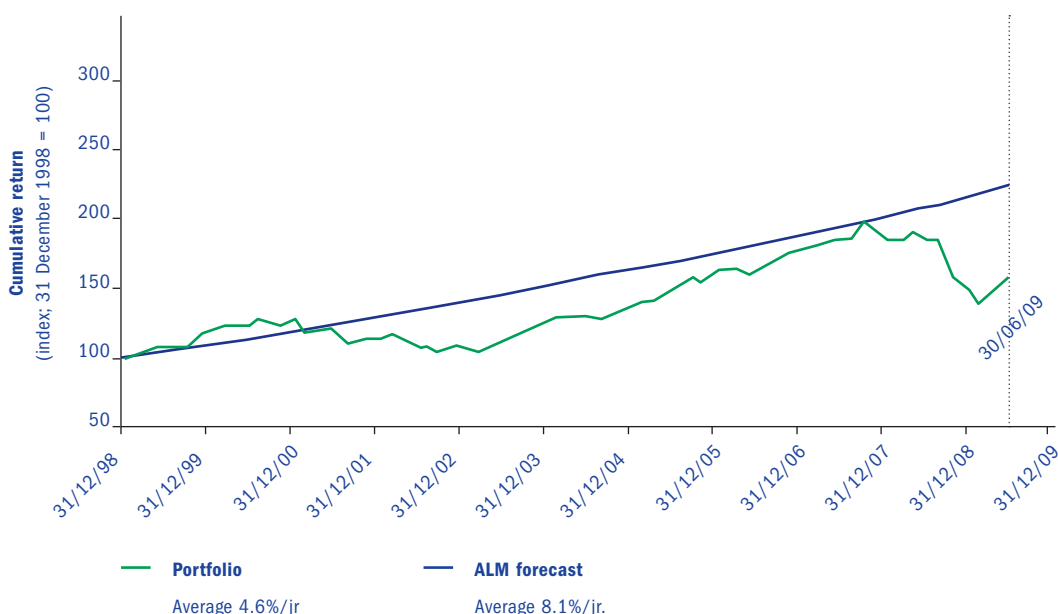
With the exception of infrastructure, private equity and private real estate, all investments recorded an excellent performance in the second quarter. Good results were achieved particularly in April and May. Prices of liquid shares and public real estate rose by 17.2% and 25.1% respectively. A substantial decrease in credit spreads also generated attractive yields on bonds (6.2%) and structured credit (24.3%). Inflation-linked bonds (+3.6%) benefited from increased inflation expectations. A rise in the oil price from \$50 to \$70 a barrel led to a 24.5% return on commodities. The rise in metal prices also contributed to this return.

Partly as a result of the method used to value investments, the returns on private investments in real estate (-3.8%) and infrastructure (-3.6%) lagged behind those on marketable investments. Higher inflation expectations caused the European 30-year swap rate to rise by almost 0.5 of a percentage point.

Pensioenfonds Zorg en Welzijn hedges part of the interest-rate risk on its liabilities. When interest rates rise, as was the case in the second quarter, this leads to a negative hedging result. The interest hedge consequently gave rise to a negative result of €1.2 billion.

## Long-term overview

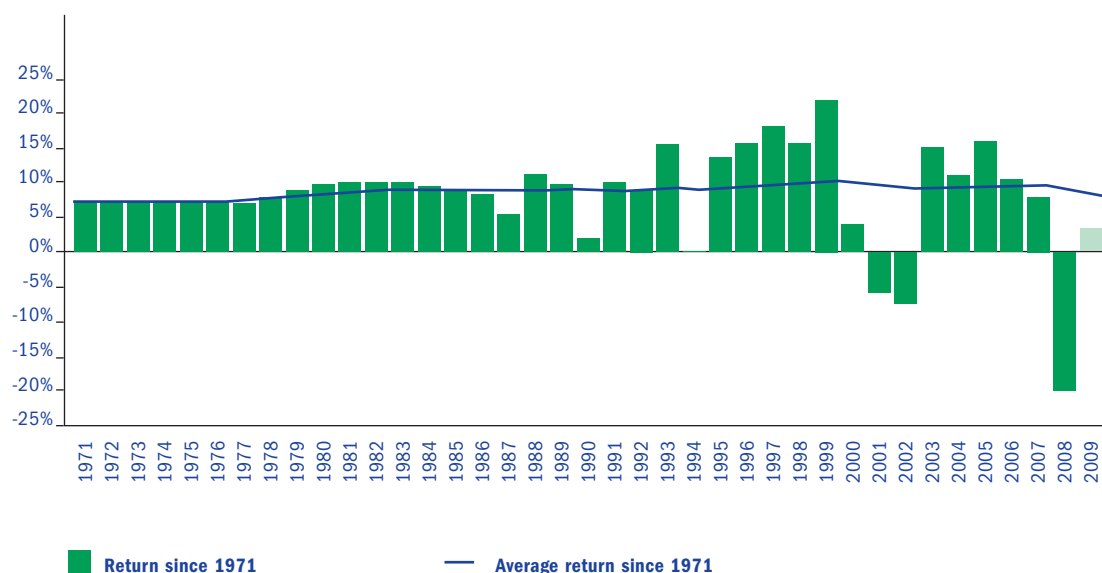
### Cumulative return Pensioenfonds Zorg en Welzijn since 1999



In the chart above, the cumulative return over the last 10 years is compared to the cumulative forecast used in the ALM policy. The chart shows that the actual return in 1999 was above the ALM forecast. In the years 2000-2002, the actual return was lower, after which it recovered up to 2007 inclusive. As a consequence particularly of the negative result for 2008 and the first quarter of 2009, the cumulative return over the last 10 years is substantially lower than the ALM forecast. The positive result over the past quarter was once again higher than the ALM forecast, which is reflected in the rise in the portfolio value in the last quarter.

The ALM forecast is used to gear the investment policy to the future trend in pension payments. The ALM policy is assessed annually.

## Return since 1971



2009 is over the first six months

The average annual return since 1971, the year in which the pension fund began operating, is 7.7%. The chart above shows the returns since 1971. It clearly demonstrates that a broadly diversified portfolio can generate a high and relatively stable return in the long term, even if the annual return fluctuates widely. This underlines Pensioenfonds Zorg en Welzijn's long-term view.

## **Profile of Pensioenfonds Zorg en Welzijn**

Pensioenfonds Zorg en Welzijn provides a compulsory group pension scheme for the care and welfare sector. The aim is to provide participants with a high-quality pension package at the lowest possible price. The basic principle of the scheme is solidarity. Participants and employers can accumulate a supplementary pension by means of the Extra Pension product in the group scheme.

Pensioenfonds Zorg en Welzijn invests the contributions paid by employers and employees with the aim of achieving a high, stable and responsible return over the long term at an acceptable level of risk. The fund invests globally in the investment categories of equities (including private equity), fixed-income securities, real estate and infrastructure, commodities and Portfolio of Strategies.

Pensioenfonds Zorg en Welzijn has the status of a foundation (stichting). The board of the foundation is responsible for the policy and implementation of the group pension scheme. It comprises six representatives of employer organisations in the sector, six representatives of employee organisations and an independent chairperson.

The Pension Council, consisting of participants, pensioners and employers, is an important part of our organisation. In order to implement the principles of good pension fund governance, it has been decided to integrate co-determination and the new accountability function into the Pension Council.

## **Disclaimer**

PGGM, acting as the implementing organisation under the authority of Pensioenfonds Zorg en Welzijn, has taken the utmost care in compiling this quarterly report. The published information may nevertheless be incomplete or inaccurate. Neither Pensioenfonds Zorg en Welzijn nor PGGM accepts any liability in this regard.

Pensioenfonds Zorg en Welzijn and PGGM also decline any liability for damage resulting from or relating to the use of (or the impossibility of use of), reliance on, or actions or omissions in response to, the information published in this quarterly report.

All 2009 figures stated in this quarterly report are provisional, unaudited figures.

## **Further information is available from:**

Chris Ypma

Spokesperson for Pensioenfonds Zorg en Welzijn

Telephone +31 (0)30 - 277 97 35

chris.ypma@pggm.nl

[www.pfzw.nl](http://www.pfzw.nl)