



*Philips Executives Pension Plan*

PHILIPS PENSIOENFONDS

INVESTMENT REPORT

2010

Information about the investments  
in the Defined Contribution part of  
the Philips Executives Pension Plan

*Philips Executives Pension Plan*

Philips Pensioenfonds has contracted out the administration of the Philips Executives Pension Plan to Hewitt Associates Outsourcing B.V. Any questions you may have about your pension can be addressed to Hewitt Associates. Contact details for Hewitt Associates are as follows:

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This investment report was prepared with the utmost precision and was based on the information known to us as well as the pension plan rules applicable to you. Ultimately, the pension plan rules are decisive.

The pension plan rules can be found at [www.philipspensioenfonds.nl/downloads](http://www.philipspensioenfonds.nl/downloads)



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# I. What were the economic developments during the year 2010?

General economic developments have a direct influence on the investments of Philips Pensioenfond. Therefore we will provide an overview here of the general developments in the area of investments during the year 2010.

## General

2010 was another turbulent year. Three main themes dominated the financial markets.

### *Developments in Euro zone*

First of all there was the European debt crisis, which started at the end of 2009 in Greece when it appeared that the budget figures there had been manipulated. Fears that the crisis would spread to other economically and financially weaker countries within the Euro zone, such as Ireland, Portugal, Italy and Spain, also led to a sharp rise in the capital market interest rate in those countries within a short period of time. The far-reaching budgetary measures that were announced consequently proved to be inadequate in reassuring the financial markets. This was translated into a decrease in the value of the Euro compared with all the other major currencies.

The possible destabilisation of the Euro and the increasing losses on government loans have led to collaboration between the countries in the Euro zone and the International Monetary Fund (IMF). This collaboration resulted in the setting up of a European emergency fund. With the European emergency fund in place, this created space for the countries in the Euro zone to get their budgets in order and for European regulations to be improved. The most important measures are aimed at far-reaching control over the financial situation in countries with budgetary deficits and clear sanctions against failing budgetary policies. The financial markets stabilised once again through the establishment of this emergency fund.

The European Central Bank (ECB) contributed to the stabilisation of the financial markets by taking unprecedented measures, such as buying up Greek government loans and the extensive issue of liquid assets to financially weak European banks.

### *Slowdown in economic recovery*

A possible slowdown in the economic recovery that had started at the end of 2009 was the second main theme dominating the financial markets last year. Although the worldwide economic recovery appeared to continue on balance during 2010, there were various moments at which investors doubted its reality. These concerns were fed by the fear that strict budgetary measures imposed by governments in the West, aimed

at bringing down government shortfalls, would bring the economic recovery to an early halt again. But also the continuing reluctance shown by the banks with regard to the provision of credit, the persistent unemployment in the USA and the lack of recovery in the American housing market regularly provided cause for uncertainty.

### *Inflation measures in China*

The third important theme that caused unrest recurrently in the financial markets during 2010 was the threat of overheating in the Chinese economy and the measures aimed at limiting the inflation in that country. Due to the important role that China has played over the last few years in driving the worldwide economic growth, these measures were all received negatively by investors.

## **Equities**

The equity markets worldwide started hesitantly in 2010. The expectation of a continued economic recovery ensured that the first quarter ended on a positive note. The equity markets fell back sharply during the second quarter, however, due to doubts about the durability of the worldwide economic growth and the threatening increase in the debt problems in the Euro zone. From September onwards, investors showed their trust once again.

## **Exchange rates**

The European debt crisis also shook up the exchange rate markets. It pushed the long-term risks of the unprecedented monetary measures in the USA were thereby pushed into the background. This meant that the Euro fell sharply against the US dollar during the first half of the year. Bearing in mind the strong value of emerging market currencies and the other Asian countries, the blame for this, however, seems to lie in the weakness of the Euro rather than in the strength of the US dollar. During the second half of the year the US dollar had a very rocky ride, which partially helped to offset the Euro's earlier losses. But all in all, the Euro depreciated in value during 2010.

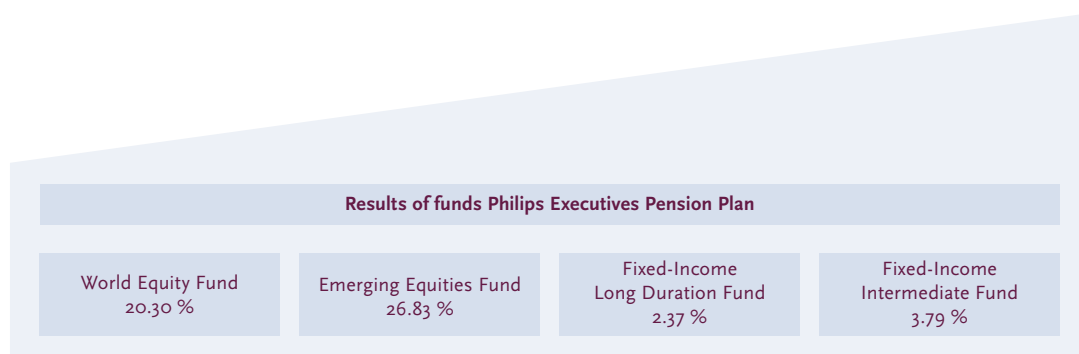
## **Commodities**

The commodity market also experienced turbulent times in 2010. From September onwards the price of oil rose to above USD 90 a barrel. The trend was also positive for agricultural products and metals. This made 2010 a good year for commodities. The prices were not only driven up by speculation, but they also rose as a result of the continuing strong demand from the emerging markets, in combination with a structural scarcity in the mining of raw materials and the disappointing harvests of agricultural products.

## 2. Investment Returns Philips Executives Pension Plan

### Summary of returns of investment funds

In the summary given below you can see what returns were achieved in 2010 by the investment funds of the Philips Executives Pension Plan.

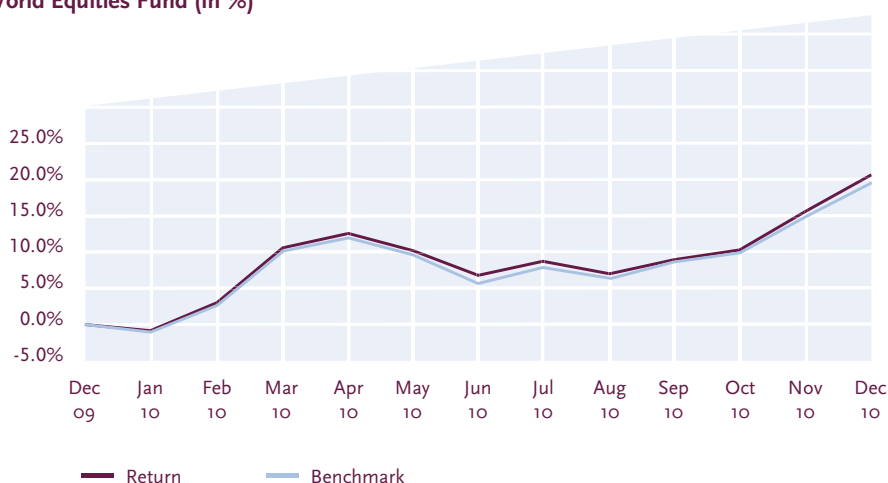


*The value of investments can fluctuate. Results achieved in the past give no guarantee for future results.*

### Results World Equity Fund

Equities extended the recovery that started in March 2009 into 2010. Volatility remained high in 2010 especially in the second quarter of the year. The World Equity Fund delivered a 20.30% return outperforming the benchmark, the MSCI World, which returned 19.53%. The majority of the outperformance was achieved in the first half of 2010.

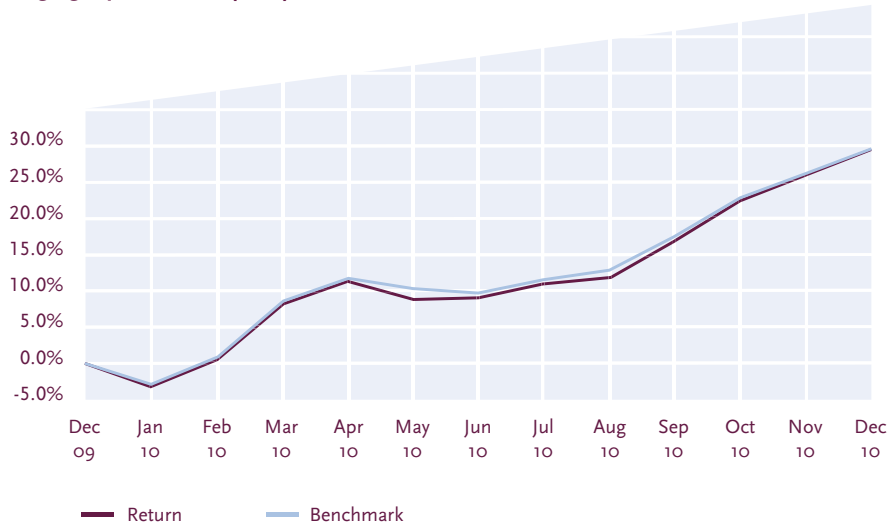
#### World Equities Fund (in %)



## Results Emerging Equities Fund

The Emerging Equities Fund gained 26.83% (in USD) in 2010 slightly underperforming its benchmark, MSCI Emerging Markets Index, which rose 27.14% (in USD). Most of this underperformance can be attributed to negative stock selection.

Emerging Equities Fund (in %)



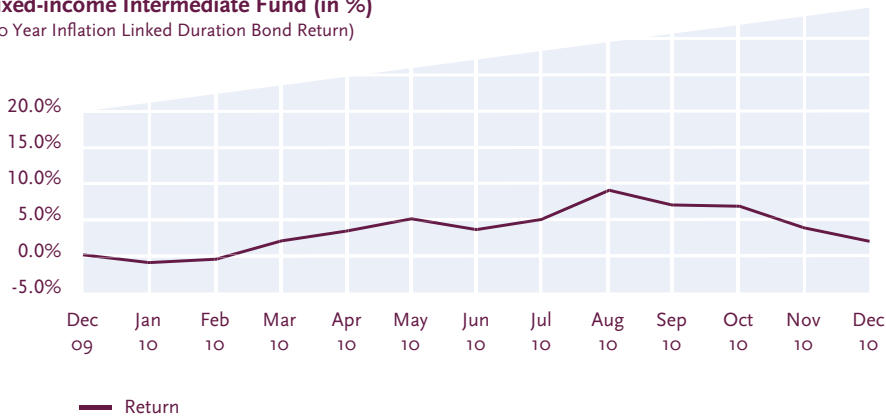
## Results Fixed-Income Funds

Early in 2010 investors anticipated monetary tightening by the European Central Bank. In the course of 2010 it became clear, however, that the ECB would continue its very accommodating monetary policy this time to counter the Euro crisis. Interest rates dropped significantly especially at the long end of the curve as a result of the government crisis in Greece and Ireland and to a lesser extent in other peripheral markets as Portugal, Spain and Italy. Toward the end of 2010 rates rose again. Volatility in the bond markets was extremely high in 2010.

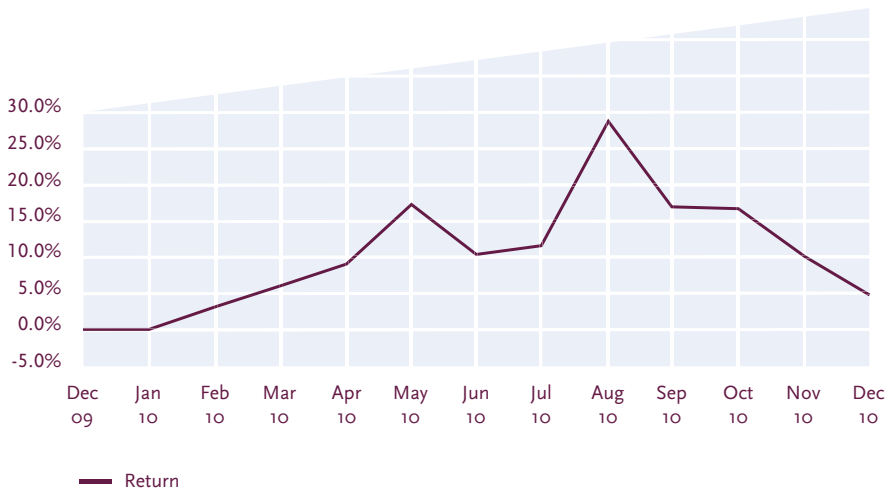
The 10 Year Inflation-Linked Duration Bond Fund returned 3.79% in 2010 while the 35 Year Inflation-Linked Duration Bond Fund gained 2.37%. At the end of the third quarter of 2010 the 35 Year Inflation-Linked Duration Bond Fund had risen more than 17% as a result of the severe drop in long term interest rates but in the last quarter the Fund gave up most of its gains when interest rates started to rise again.

The Funds have a duration target of respectively 10 and 35 years to match the liabilities of the participants in the Executives Pension Plan. The Funds do not have a performance target and hence also no benchmark.

**Fixed-income Intermediate Fund (in %)**  
(10 Year Inflation Linked Duration Bond Return)



**Fixed-income Long Duration Fund (in %)**  
(35 Year Inflation Linked Duration Bond Return)





All sums are given in euros

### 3. Statement of changes

Statement of changes as of 31 December 2010 of the investments in the Philips Executives Pension Plan

	<b>Fixed-Income Long Duration Fund</b>	<b>Fixed-Income Intermediate Fund</b>	<b>World Equities Fund</b>	<b>Emerging Equity Fund</b>
<b>As of 31 December 2009</b>	<b>35,497,305</b>	<b>7,564,838</b>	<b>3,596,901</b>	<b>1,600,776</b>
Purchases	9,139,376	866,336	-660,226	1,319,101
Sales/repayments/switches	559,099	1,773,187	-1,263,921	-2,373,562
Changes in value/salesresult	198,175	298,661	544,564	275,573
<b>As of 31 December 2010</b>	<b>45,393,955</b>	<b>10,503,022</b>	<b>2,217,318</b>	<b>821,888</b>

