



REUTERS/Lucas Jackson

# De-Risking Pensions through Investment Strategy

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Alexander Hamilton Awards  
October 28<sup>th</sup> 2010

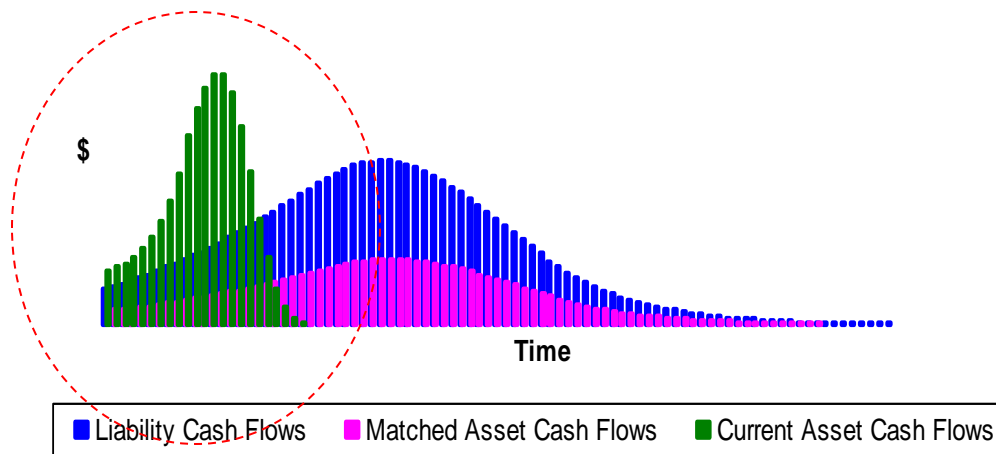


THOMSON REUTERS

## Background – The Situation in 2006

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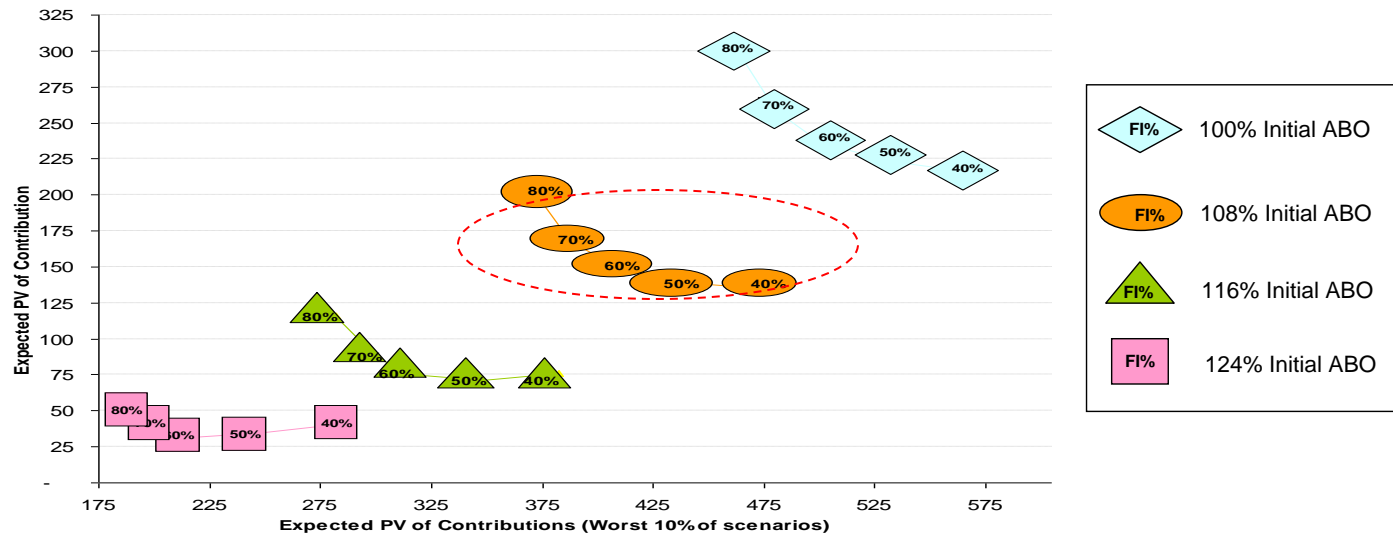
- Traditional U.S. Defined Benefit Plan, with over \$1B in assets , 35,000 participants, and closed to new entrants
- Asset Allocation of 70:30 equities to Fixed Income – which was not aligned to underlying pension liability



- **Resulting in funded status volatility and unpredictability in pension contributions**

# Investment Strategy & De-Risking Review

- Considered full spectrum of alternatives:
  - Current strategy to liability-matching to full immunization
- Objectives:
  - *Balance cash contributions with reduced funded status volatility*
  - *Achieve risk and return profile to better match liability*
  - **Optimize contributions**



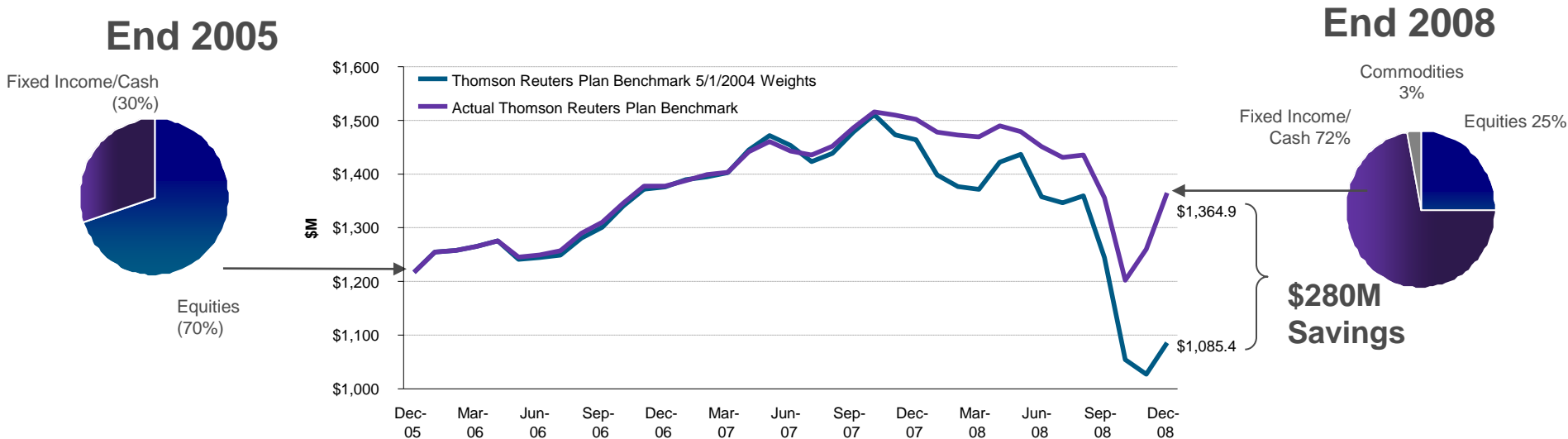
# *Recommendations to Global Retirement Committee*

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- “Recommend adopting a liability-focused approach to managing our pension assets”
  - “Recommend increasing target fixed income level from 40% to 60%”
  - “Recommend extending duration improve hedge on underlying pension liability”
- “Recommend more diversity in risk assets with an objective of improving alpha with less risk” :
  - “5% allocation to Commodities”
  - “10% allocation to Emerging Market Equities”
- “Recommend re-running analysis on an annual basis, using framework as outlined”

# Impact of Dynamic De-Risking – 2006-2008

- June '06 – Re-allocation of 10% Equities to Long Gov/Credit (60:40)
- May & Dec. '07 – Further re-allocation 20% Equities to Fixed Income (40:60)
- March - May '08 – Shift from US/Int'l to EM Equities, & Commodities
- April '08 – Extend duration with 10% allocation of F.I. to STRIPS

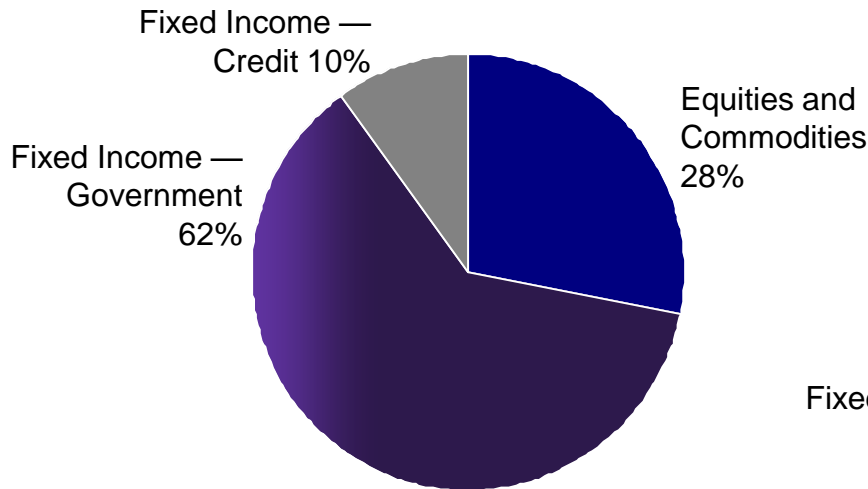


**Action estimated to have preserved \$280M in pension assets**

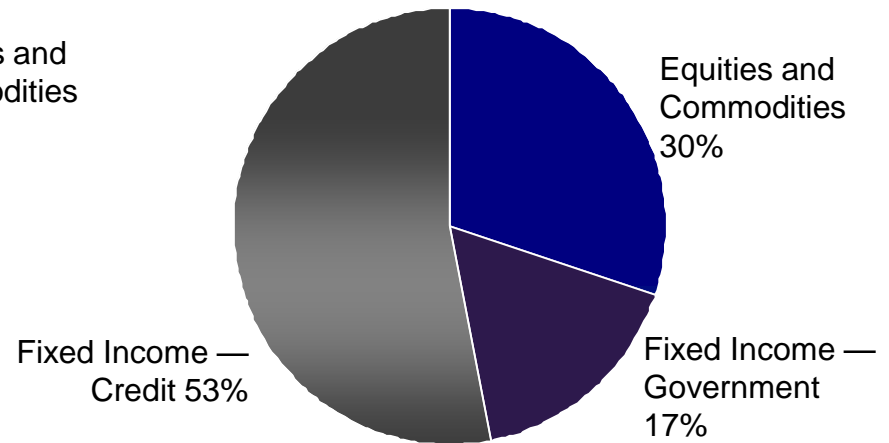
# De-Risking – 2009 Fixed Income Opportunity

- In December 2008, historic treasuries levels combined with extreme widening of corporate spreads provided an unique opportunity
- Took action to reduce exposure to Government bonds and increase exposure to High Grade Corporate bonds
  - Change reflected moving treasury exposure from over 60% of the portfolio to ~17%

**December 2008**



**March 2009**



**Action estimated to have preserved \$140M in pension assets**

## Status in Closing 2009

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- \$1.4B in plan assets, funded status 97% 12/31/2009
- Liability driven approach to managing pension assets has improved underlying hedge on pension liability
  - *Over several years assets have been dynamically and physically re-allocated from 70% equities to 70% income*
  - *Preserved over \$400M or over 25% of plan assets during the worst financial crisis since the great depression*
  - *Resulted in no meaningful contribution to the US pension plan since 2003*
- Over 3, 5, and 10 years, US Plan returns are in the top quartile of performance for plans surveyed with over \$1 billion in assets
- Employing framework /approach globally to other plans (UK, Switz.)