

TREASURY &
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RISK

ALEXANDER HAMILTON

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Alexander Hamilton Award Presentation – October 25, 2011

Greg Andrulonis
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COVIDIEN

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Presented by:



Covidien background

- A leading global manufacturer of medical devices and supplies, diagnostic imaging agents and pharmaceuticals, with 2010 revenue of \$10.4 billion
- Employs 41,000 people worldwide in more than 65 countries
- Created in June 2007, when Tyco International Ltd. split itself into three independent companies: Covidien (formerly Tyco Healthcare), TE Connectivity (formerly Tyco Electronics) and Tyco International
- Upon separation Covidien had ~\$450M in assets in the U.S. DB Plans (approximately 20% of Tyco total)
 - Assets in 9 strategies with 14 managers
 - Plans predominantly frozen prior to separation (some for ~10 years)
 - Loss of scale impacting fees
 - Company focus on business strategy and growth
 - Cost effective to consider outsourcing
 - Committee inclined to use LDI approach long term

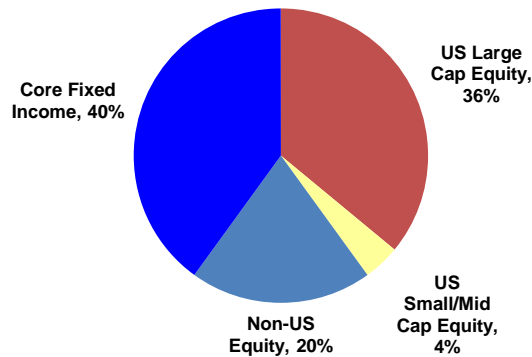


Evolution of Pension Plan Management

- Major project conducted during second half of 2007 to reevaluate inherited pension management model and decision-making process.
- The objectives of the process were to:
 - 1) implement a liability driven management approach for the Plans going forward
 - 2) allow the Retirement Investments Committee to focus on strategic level plan decisions
- Initial funding with SEI Investments in January 2008
- Advice analysis outlined two distinct groups of Plans based on current funded status, liability growth rate, active/frozen status, and other key metrics.
- Initial recommendations adopted and implemented in June 2008. Secondary adjustments to investment strategy were made in February 2009 and December 2010 based on market conditions and opportunities.



The Evolution of Covidien's Defined Pension Plan Management from Traditional "Asset-Only" Framework to Liability-Driven Approach



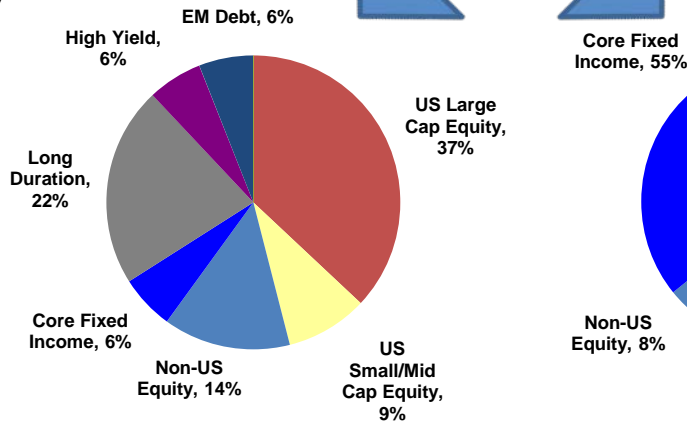
September 2008:

Combined Plans

Market Value: \$452mil
 Funded Status: 89%
 Liability Duration: 9.8
 Fixed Duration: 5.0
 Plan Duration: 2.0

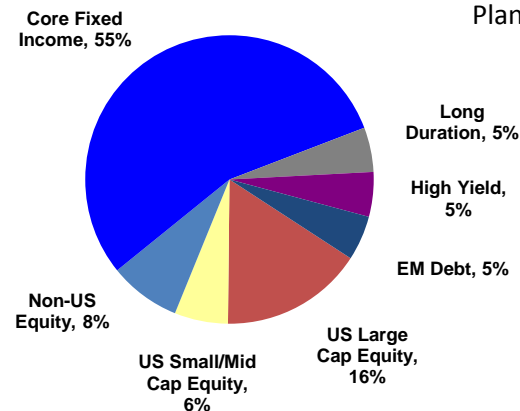
Plan Group #1

Market Value: \$268mil
 Funded Status: 85%
 Liability Duration: 11.0
 Fixed Duration: 20.7
 Plan Duration: 5.8



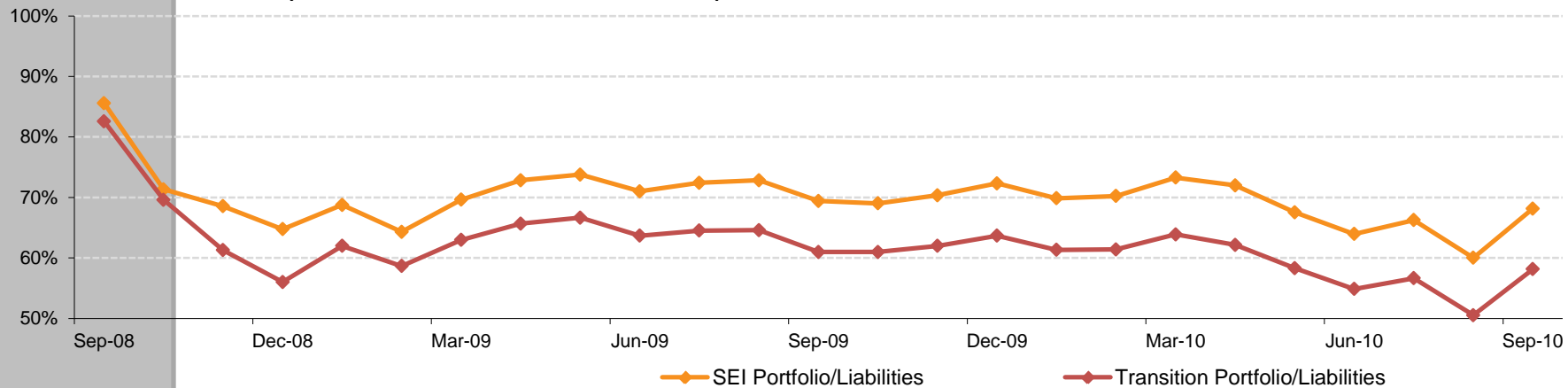
Plan Group #2

Market Value: \$185mil
 Funded Status: 95%
 Liability Duration: 8.0
 Fixed Duration: 6.7
 Plan Duration: 4.0

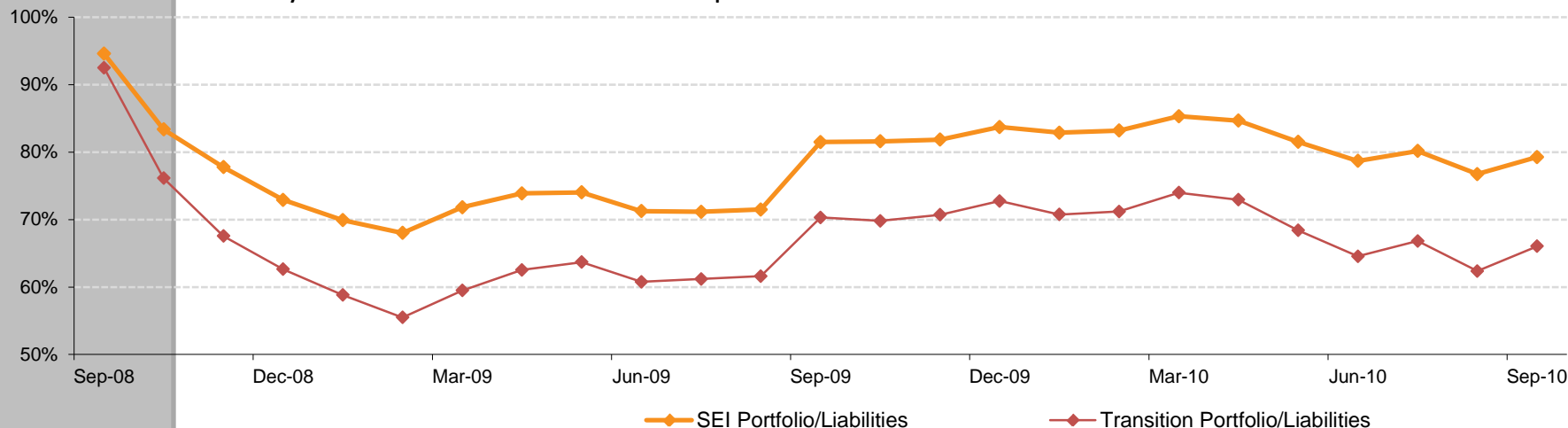


Liability-Driven Strategies Helped Covidien Plans Avoid the Magnitude of Funded Status Declines Experienced Across the Industry (-24%*)

Monthly PBO Funded Status: Plan Group #1



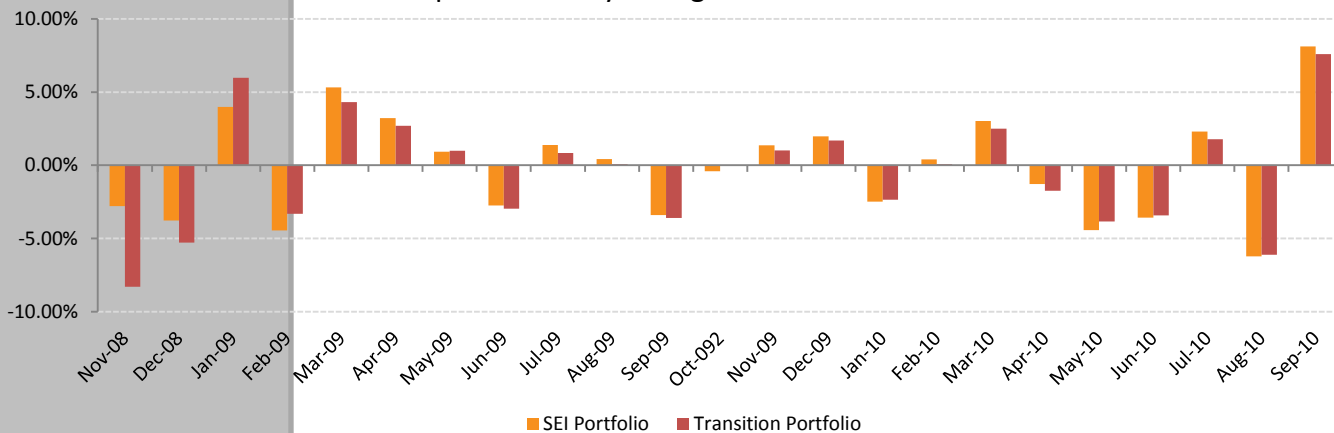
Monthly PBO Funded Status: Plan Group #2



* Source: Mercer, estimated based on S&P 1500 companies offering pension plans

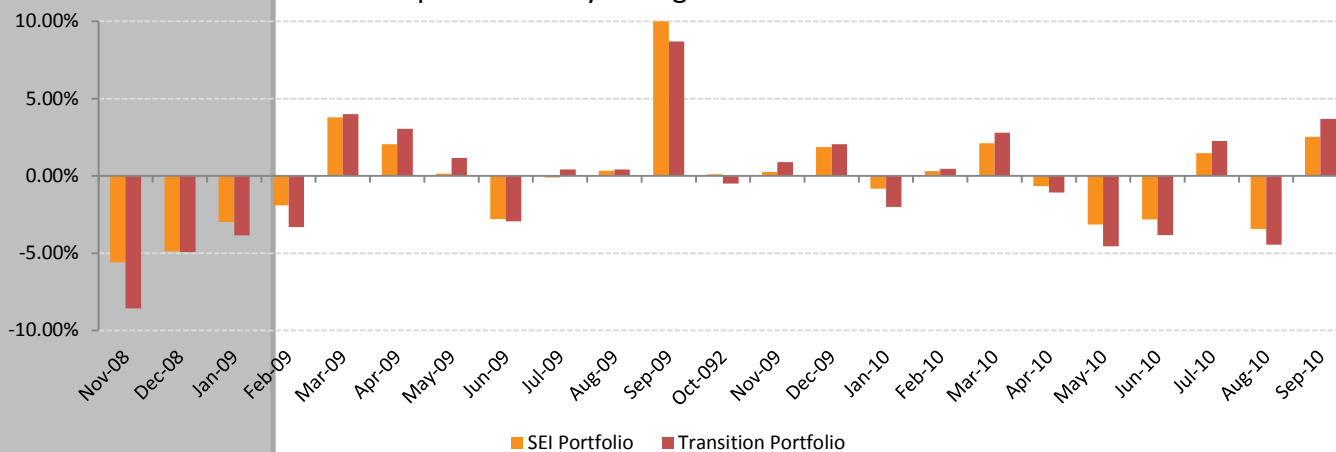
Committee Goal of Reducing Funded Status Volatility has Been Achieved Through use of Liability-Driven Strategies

Plan Group #1: Monthly Change in PBO Funded Status



	SEI Portfolio	Transition Portfolio
Average Monthly Change	-0.17 %	-0.51%

Plan Group #2: Monthly Change in PBO Funded Status



	SEI Portfolio	Transition Portfolio
Average Monthly Change	-0.33 %	-0.65%

