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A DYNAMIC ASSET ALLOCATION STRATEGY FOR HP PENSION

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HISTORY OF HP'S PENSION

PLAN

— HP is a pioneer of liability-driven investing

- In 2007, the HP plan became fully funded
- HP immunized the plan by moving asset allocation to almost entirely in fixed income and hedging 100% of interest rate risk with swaps
- Funded status rose to 130% during 2008 credit crisis
- Lesson learned: take risk away when you can instead of timing market

— In 2008, HP acquired EDS

- EDS plan was underfunded and managed very differently from HP plan
- Equity allocation was 90%, resulting in large fall in funding ratio in 2008
- Liability was 50% larger and had unique cash flow features

— In November 2009, HP and EDS pension plans merged

- New combined plan was underfunded
- Throughout 2009, we began to design a new strategy with a goal of generating sufficient return to reduce funding gap while managing funded status volatility at a tolerable level

— In 2010, new investment strategy was implemented

- New HP LDI strategy helped protect our funded status and reduce funding status volatility in 2011



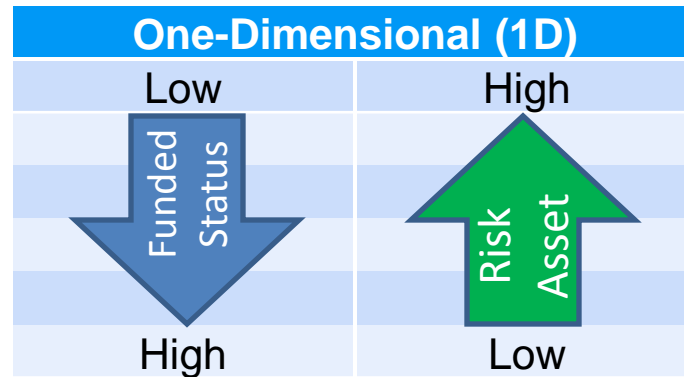
DEVELOPING LDI 2.0 IS MORE CHALLENGING

- Liability structure is more complex
 - Cost of living adjustments, interest crediting rate, and other new features in EDS plan result in optionality in liability cash flows
 - Worked with actuary, consultants, and investment managers to understand and develop industry best practices
- Designing an LDI strategy is challenging in the low yield, low return, and volatile market environment
 - HP decided to build own model to analyze various asset allocation policies and de-risking strategies
 - Model accounts for changing asset class correlations
 - Model customized to incorporate HP's specific liability cash flows and corporate contribution policy
 - Evaluated distribution of funding ratios, volatility, and required corporate contributions
- Analysis provided framework for new de-risking program design
 - New strategy reduced volatility without necessarily increasing corporate contribution

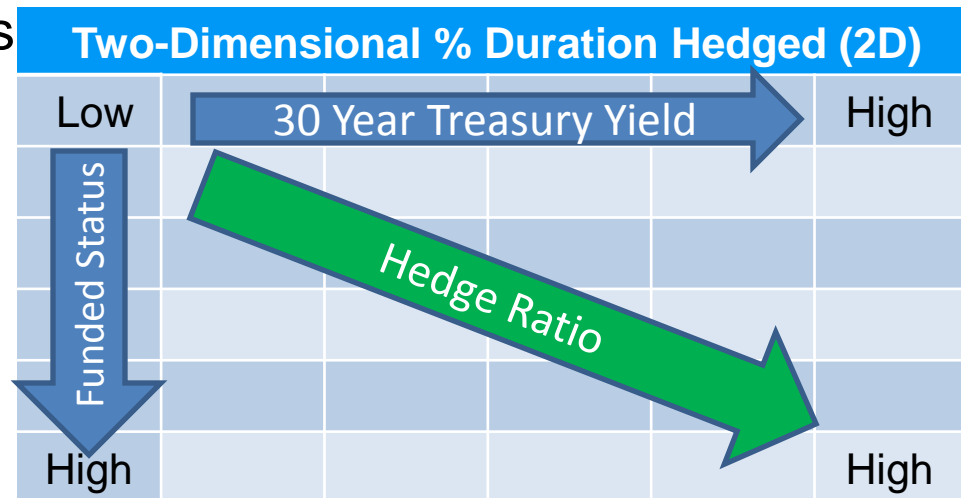


NEW STRATEGY ADJUSTS RISK LEVEL BASED ON FUNDED STATUS AND INTEREST RATE

Allocation to risk asset based on funded status level



— Interest rate hedge ratio based on funded status and interest rate levels



LDI 2.0 REQUIRES MORE SOPHISTICATED EXECUTION STRATEGY

- Frequent monitoring
 - Built internal model to track funded status, asset allocation, and interest rate hedge ratio on a daily real-time basis
 - Created table to analyze funded status sensitivity to market risk factors
 - Developed cross asset risk dashboard to improve risk monitoring
- Setting triggers
 - Determined the thresholds and glide-path to de-risk and re-risk
- Derivatives based overlay programs
 - Launched derivative based programs to manage overall global equity, interest rate, and foreign currency exposures
 - More efficient framework to manage cash flows and asset allocation
- Governance structure
 - Received full support from HP Investment Review Committee
 - Ability to execute investment decisions in real-time



LDI 2.0 RESULTS HAVE BEEN PROMISING

- Performance of the new LDI strategy
 - New strategy helped protect funded ratio this year
 - Funded status volatility reduced by 2.5%
 - While the average S&P 1500 pension plan funding ratio declined from 81% to 72% year-to-date as calculated by Mercer, the HP plan has remained relatively stable
- Dynamic strategy helped remove the emotion from trading
 - Sold equity and bought bonds in late 2010 and early 2011
 - Reduced interest rate exposure in August 2011
 - Bought equity in August and September 2011
- We continue to refine and improve our strategy
- Looking to apply strategy to help HP's international pension plans

