DB pension scheme de-risking case study

Unilever Superannuation Ireland Fund (USIF)

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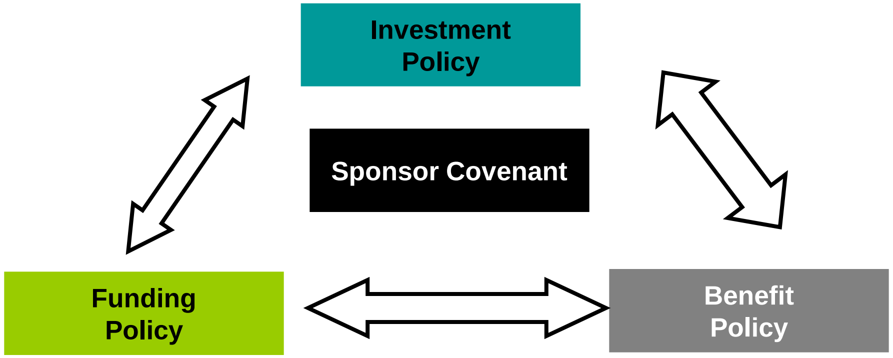
Summary: Why we needed to revisit investment strategy

- Membership profile had changed significantly (reduced number of active members, increased numbers of deferreds / pensioners)
- Key requirements included:
  - Better understand liability profile and design an investment strategy to better match that profile over the longer time-frame
  - Better diversify the pool of assets to address concentration and downside risk.
  - Capture improvements in funding more systematically
- Some steps already taken in advance of the strategy review
  - Change to mandates and phased reduction (Irish Equities)
  - A strategic allocation to emerging market equities

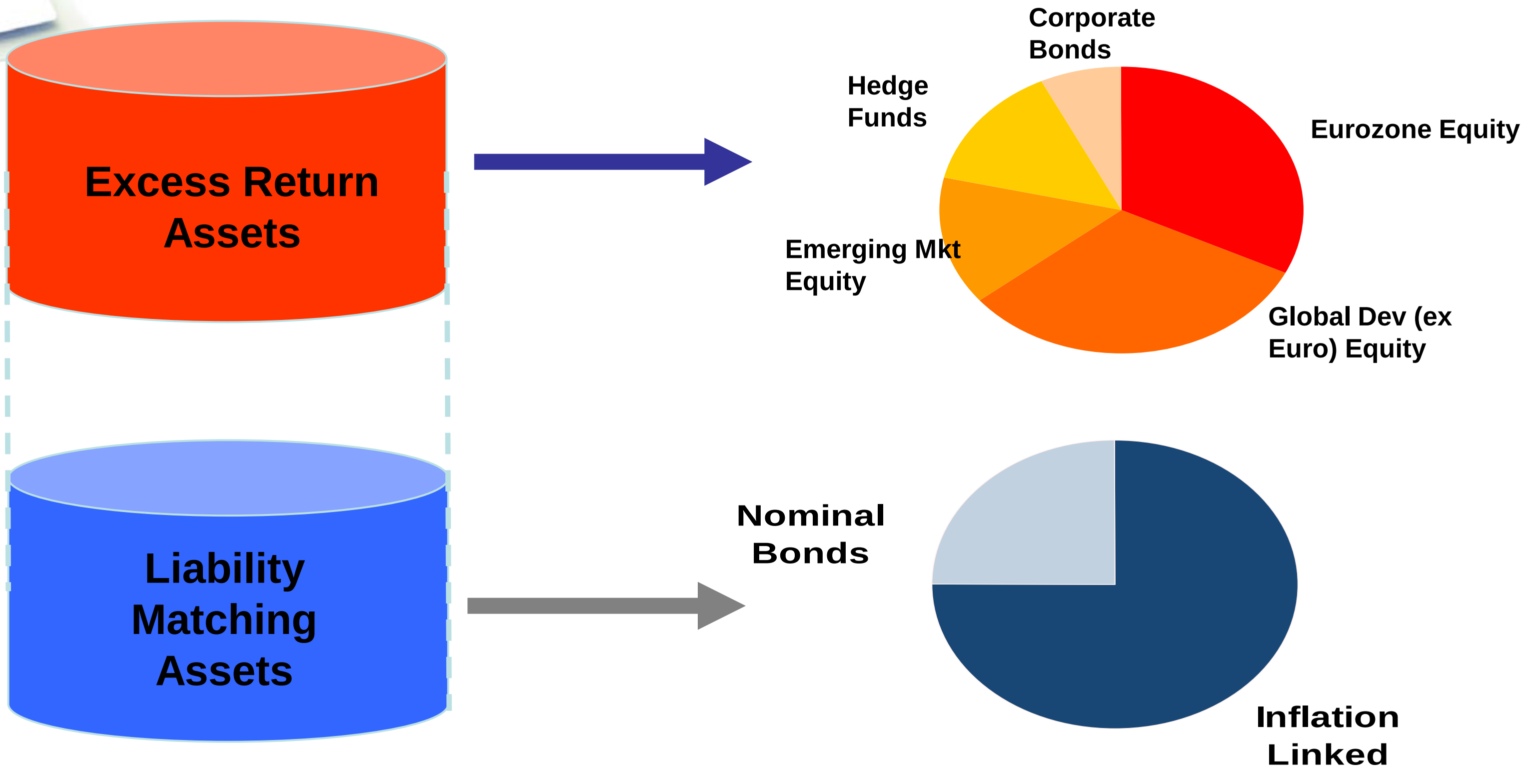
Investment Strategy:
Conceptual Policy Framework

Three ‘control levers’



- **Risk-taking in one area is inextricably linked to the other two.**
- **Sponsor Covenant is the fulcrum, which potentially (if covenant is strong) allows more risk to be taken in the investment, benefit and funding areas.**

Output of investment strategy review



USIF Investment Committee

- Established, with the Trustees’ advisers, to oversee and manage ongoing governance of investment matters related to the scheme’s assets and liabilities.
- Main responsibilities include:
  - Recommendations to trustees on long term strategic asset allocation
  - Recommendations to trustees on de-risking strategy
  - Oversee implementation of changes to investment strategy
  - Ensure cash management and dis-investment procedures are appropriate
  - Agree valuation methodology and assumption setting
  - Review company covenant on annual basis
- All recommendations signed off by the trustees before implementation
- Benefit is that the trustee can focus on main issues affecting the scheme and delegate investment related matters to an expert group

First Step: Fixed Income Mandate

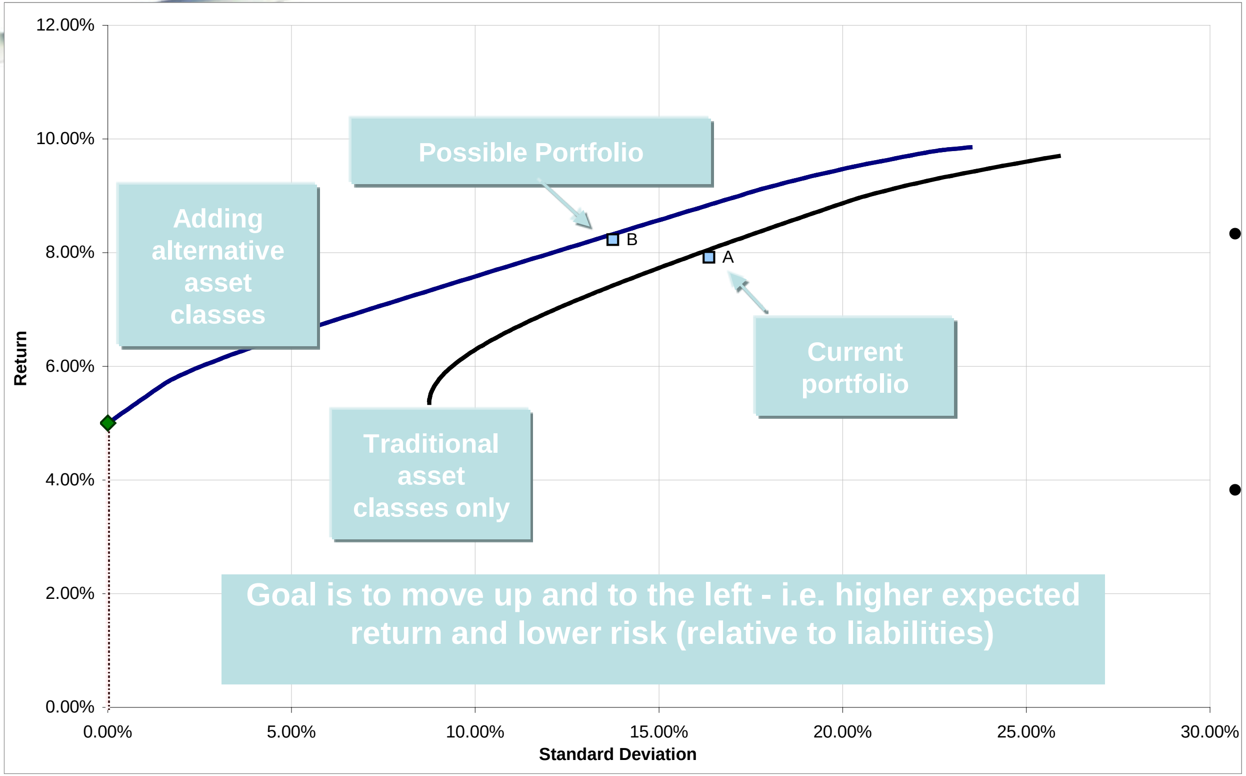
- Analysis of the liability profile indicated the mandate was not ‘best fit’ for the scheme

- Main element was a duration ‘mis-match’ between assets and liabilities

- Three objectives to be addressed:
  1. Closer duration match of assets to liabilities (8 years versus liability duration of 14 years)
  2. Introduce IL bonds as closer match to IL liabilities (75% of liabilities are linked to CPI)
  3. Less critical but would like to retain corporate bond exposure (valuation grounds)

- Trustees decided to
  - Lengthen the duration of FI assets, introduce IL bonds (consistent with liabilities) and retain corporate bond exposure
  - Explore a more direct LDI Matched portfolio as the weight to FI increases

Optimising Risk/Return Trade-off (SAMPLE)

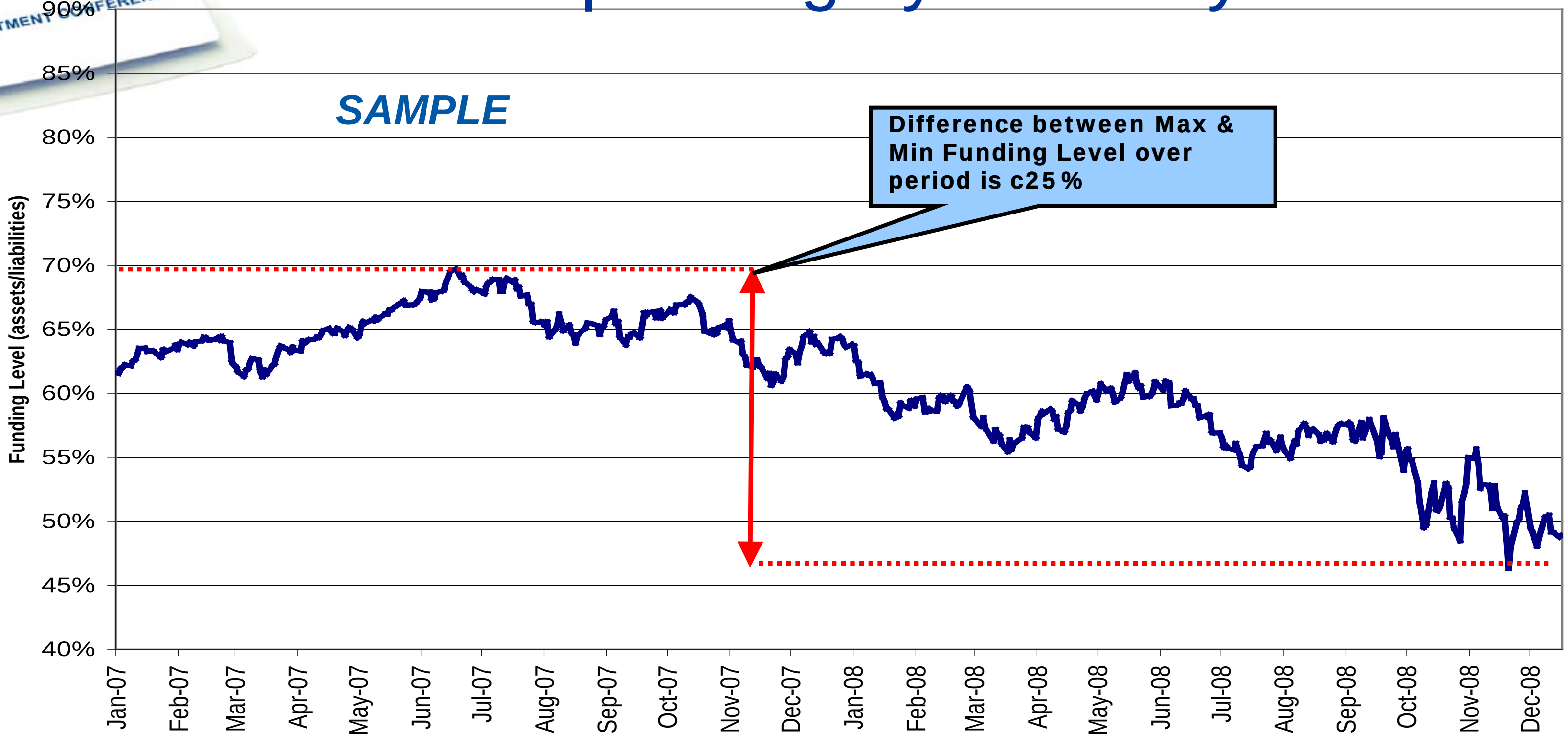


- 'Efficient Frontier Analysis' allows us to map the risk/return characteristics of different portfolios
- Adding alternative assets can lead to an increase in expected return while simultaneously reducing risk
- Risk is defined here as the 'tracking-error' of the assets relative to the liabilities and is shown along the horizontal axis (with expected return on the vertical axis)

Diversification
Move to more efficient portfolio

Comparison of Current with Efficient Portfolios		
Asset Classes	Current	Efficient
Eurozone Equity	37%	22.5%
Global Developed (ex Eurozone)	22%	22.5%
Emerging Market Equity	6%	10%
Hedge Funds	0%	10%
Corporate Bonds	3%	5%
Total Return Seeking	**68%**	**70%**
Total Liability Matching	**32%**	**30%**

De-risking: Monitoring the funding level and responding dynamically



- **Funding level changes on a daily basis – more regular monitoring facilitates derisking when funding levels improve**
- **Tracked and reported on monthly since Q4 2009**

USIF De-risking framework: **Initial proposal**

Funding Level (Economic)	<80%	80%	85%	90%	95%	>=100%
Expected MFS Funding Level		95%	100%	106%	112%	118%
Asset Allocation						
Return-seeking assets	70%	62%	54%	46%	38%	30%
Liability-matching assets	30%	38%	46%	54%	62%	70%

- Move to max de-risked position when Fund is fully funded (economic basis)
- Up to 80%: current strategy maintained
- Over 80%: 8% cut in RSA for each further 5% gain in funding level
- At 100% (economic basis) move to de-risked position achieved
- Meaningful distance between triggers and avoids excessive asset tweaking

USIF De-risking framework:
Setting Trigger points

- Estimated progression of the funding level (economic), based on current investment strategy (takes account of all expected employer contributions)

1st January 20..	09	10	11	12	13	14	15	16	17	18
Expected Funding Level (%)	62	66	70	74	79	84	89	94	99	101

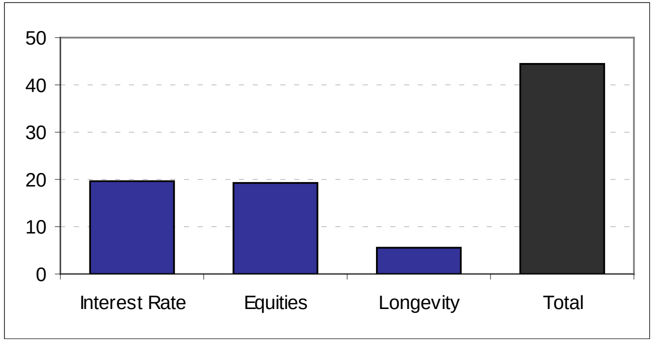
- Underfunded (economic basis) and not expected to be fully funded until 2018
- Updated estimate of funding level @ 28.02.2011 was 85%
- Waiting to de-risk until fully funded may mean missing de-risking opportunities

USIF De-risking: Monthly Monitoring

Investment Risk Analysis

The charts below provide an attribution of the risk exposures the US(I)F is exposed to split by risk type.

US(I)F Investment Risk Attribution (Feb-11)



Historical Investment Risk Attribution (€m)

	Dec-08	Dec-09	Dec-10	Jan-11 Pre De-risking	Feb-11
Total	49.7	53.3	50.7	50.4	44.6
Interest Rate	30.3	27.9	24.1	22.9	19.7
Equities	14.6	20.9	21.6	22.5	19.2
Longevity	4.8	4.5	5.0	5.0	5.7

- Interest rate and equity risk have fallen subsequent to taking the de-risking step as there is a lower allocation to Return Seeking Assets and a higher allocation to Liability Matching Assets

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Thank You

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