Hewlett-Packard Limited Retirement Benefits Plan

Statement of Investment Principles

1. Introduction

1.1 This is the Statement of Investment Principles made by the Trustees of the Hewlett-Packard Limited Retirement Benefits Plan (the "Plan") in accordance with section 35 of the Pensions Act 1995 ("the Act"), and subsequent legislation. It is subject to review by the Trustees at least once a year and more frequently as required, and in particular following formal actuarial valuations and investment strategy reviews.

The Plan comprises three Sections – Hewlett-Packard, Digital and Bank of Ireland.

1.2 In preparing this Statement the Trustees have consulted with the principal employer to the Plan (Hewlett-Packard Limited) and have taken written advice from the Plan's Investment Consultant (Mercer) in respect of the Hewlett-Packard, Digital and Bank of Ireland Sections.

2. Objective

2.1 The primary objective of the Plan is to provide, on a defined benefits basis, pension and lump sum benefits for members on their retirement, or benefits on death, before or after retirement, for their dependants.

2.2 The Trustees have agreed funding approaches with Hewlett-Packard Limited for each of the three Sections referred to above.

The funding approach for all three Sections aims to ensure that they are fully funded on an ongoing basis by 31 October 2019. For this purpose a discount rate equal to the average yield on UK AA Corporate Bonds, weighted by cash-flows, less 0.5% p.a. is used.

3. Investment Strategy

3.1 Having taken advice from the Plan's Investment Consultant, the Trustees have agreed a suitable strategic asset allocation benchmark for each Section of the Plan. The benchmark determined for each Section is consistent with the Trustees' views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk. For the Hewlett-Packard and Digital Sections, the respective strategic benchmarks have been translated into benchmarks for the individual managers which are consistent with the Plan's overall strategy. For the Bank of Ireland Section, the strategic benchmark is reflected in the choice and mix of funds in which investment is made.

3.2 The investment strategy takes due account of the maturity profile of each Section (in terms of the relative proportions of liabilities in respect of pensioners, deferred pensioners and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used on an ongoing and on other appropriate bases). The Trustees monitor strategy relative to their agreed asset allocation benchmarks. It is intended that investment strategy will be reviewed at least every three years, following actuarial valuations, and will normally be reviewed annually. Written advice will be sought as appropriate. In addition, the Trustees monitor the performance of the investment managers on a regular basis, taking independent advice as required.

3.3 For the HP and Digital Sections, the Trustees have agreed to adopt a de-risking strategy, with the aim of being invested in a strategy that targets an expected return of gilts + 1.0% p.a. with low risk by no later than 31 October 2019.

3.4 For the Bank of Ireland Section, the Trustees have agreed to adopt an asset allocation broadly consistent with the de-risking framework used by the Hewlett-Packard and Digital Sections.

3.5 To achieve their objectives, the Trustees have agreed the following:

i. **Choosing Investments**

The Trustees have appointed a number of investment managers (the “Managers”) to manage the assets of the Plan. All the Managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business and have been appointed in accordance with the requirements of Section 47 of the Pensions Act 1995. Managers are required to have regard to the need for diversification of investments, insofar as appropriate to the circumstances of the Plan.

The investments of the Hewlett-Packard and Digital Sections are managed, independently of each other, by a number of investment managers. After seeking appropriate investment advice, the Trustees have given each manager specific directions as to asset allocation but the choice of individual investments has been delegated to the managers, subject to their respective benchmarks and asset guidelines. In appointing several investment managers, the Trustees have considered the risk of underperformance of any single investment manager.

Given the size and nature of the Bank of Ireland Section, The Trustees have decided to invest with a single manager on a pooled fund basis; in addition, investment is made entirely on a passive (index tracking) basis, whereby the investment manager seeks to match, rather than exceed, the performance of the benchmark index. Each pooled fund invests in individual stocks in such a way as to replicate, as closely as possible, the composition of the benchmark index. The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Plan, particularly in relation to diversification, risk, expected return and liquidity.

In adopting the above approaches, the Trustees are satisfied that the investments of the Plan are suitably diversified as regards asset class, geographic spread and the number of stocks held.

ii. **Kinds of investment to be held**

The Plan may invest in quoted and unquoted securities of UK and overseas markets including equities, conventional and index-linked Government bonds, corporate bonds, hedge funds, property, cash and pooled funds. Where permitted, under their investment guidelines, the investment managers may invest in derivatives including futures, swaps, and options for the purposes of efficient portfolio management. The Trustees consider all these classes of investment to be suitable in the circumstances of the Plan.

iii. Balance between different kinds of investments

The Managers hold a mix of investments which reflects their views, relative to their respective benchmarks. Within any major market a Manager is required to maintain a diversified portfolio of stocks through direct investment or pooled vehicles.

iv. Risk

The Trustees monitor risk in two ways. As indicated above, they have set a strategic asset allocation benchmark for each Section. They assess risk relative to that benchmark by monitoring each Section’s asset allocation and investment returns relative to the benchmark. They also assess risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

For the Bank of Ireland Section, and the majority of investments within the Digital Section and Hewlett-Packard Section, the Trustees provide a practical constraint on Plan investments deviating greatly from the Trustees’ intended approach by investing in a range of pooled funds each of which has a defined objective, performance benchmark and Manager process which taken in aggregate constrain risk within the Trustees’ expected parameters.

In setting return-oriented objectives for the defined benefit assets, the Trustees recognise that the Plan is exposed to equity market risk, inflation risk, interest rate risk, currency risk, credit risk and manager risk. These risks introduce a degree of volatility which may mean that, in the short term, the actual return could be significantly above or below the long-term target. While it is impossible to eliminate risk without making a significant sacrifice to expected excess return, the Trustees intend to mitigate risk as far as possible by:

- Maintaining a well diversified portfolio of assets, both within each asset class and by investment manager;
- Seeking to hedge a portion of the Plan’s interest rate and inflation risk using a combination of cash, bonds and swaps. This is referred to as Liability Driven Investment (“LDI”).

v. Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed in the funding approach adopted for the Plan. The Trustees are aiming to adopt a strategy for the Hewlett-Packard and Digital Sections that targets an expected return of gilts + 1.0% p.a. by no later than 31 October 2019. For the Bank of Ireland Section the expected return on the target asset allocation is currently in excess of this.

vi. **Realisation of investments**

The majority of investments held may be realised quickly if required.

vii. **Social, Environmental and Ethical Considerations**

The Trustees recognise that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The “active” Managers have produced statements setting out their policy in this regard. Where investment is made on a passive basis, the Manager constructs a portfolio which replicates as closely as possible the index in which it invests.

viii. **Exercise of Voting Rights**

The Trustees have delegated the exercise of voting rights to the Managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. Accordingly, the Managers have produced written guidelines on their process and practice in this regard.

ix. **Additional Voluntary Contributions (“AVCs”)**

The Trustees give members the opportunity to invest in a range of pooled funds and insurance policies at the members’ discretion.

4. Compliance with this Statement

4.1 The Trustees, the Investment Managers and Mercer all have duties to perform to ensure compliance with this Statement. The duties of these parties to ensure compliance with this Statement are as follows:

- **The Trustees** will review this Statement every year on the advice of Mercer and will record compliance with it annually. If the Statement is revised, the Trustees will provide the Investment Managers with the revised Statement.
- The **Investment Managers**, will prepare regular reports to the Trustees including:
  - a valuation of all investments held for the Plan including a record of all transactions undertaken,
  - performance of the Plan’s assets against their respective benchmarks,
  - a review of actions undertaken on behalf of the Plan regarding areas such as corporate governance, socially responsible investment and disclosure of transaction costs, as recommended by the Myners review.

  The Investment Managers must also notify the Trustees in advance of any new investment categories in which they are proposing to invest.

- **Mercer** will provide appropriate advice to allow the Trustees to review and update this Statement annually (or more frequently, if required).

Signed for and on behalf of the Trustees of the Hewlett-Packard Limited Retirement Benefits Plan

________________________	________________________
Trustee	Trustee

____

Date Agreed by the Trustees