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***The evolving landscape of retirement plans in Asia Pacific:
Volatility of pension plan assets in the
current financial and economic scenario***

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Shanghai, 12 November 2008

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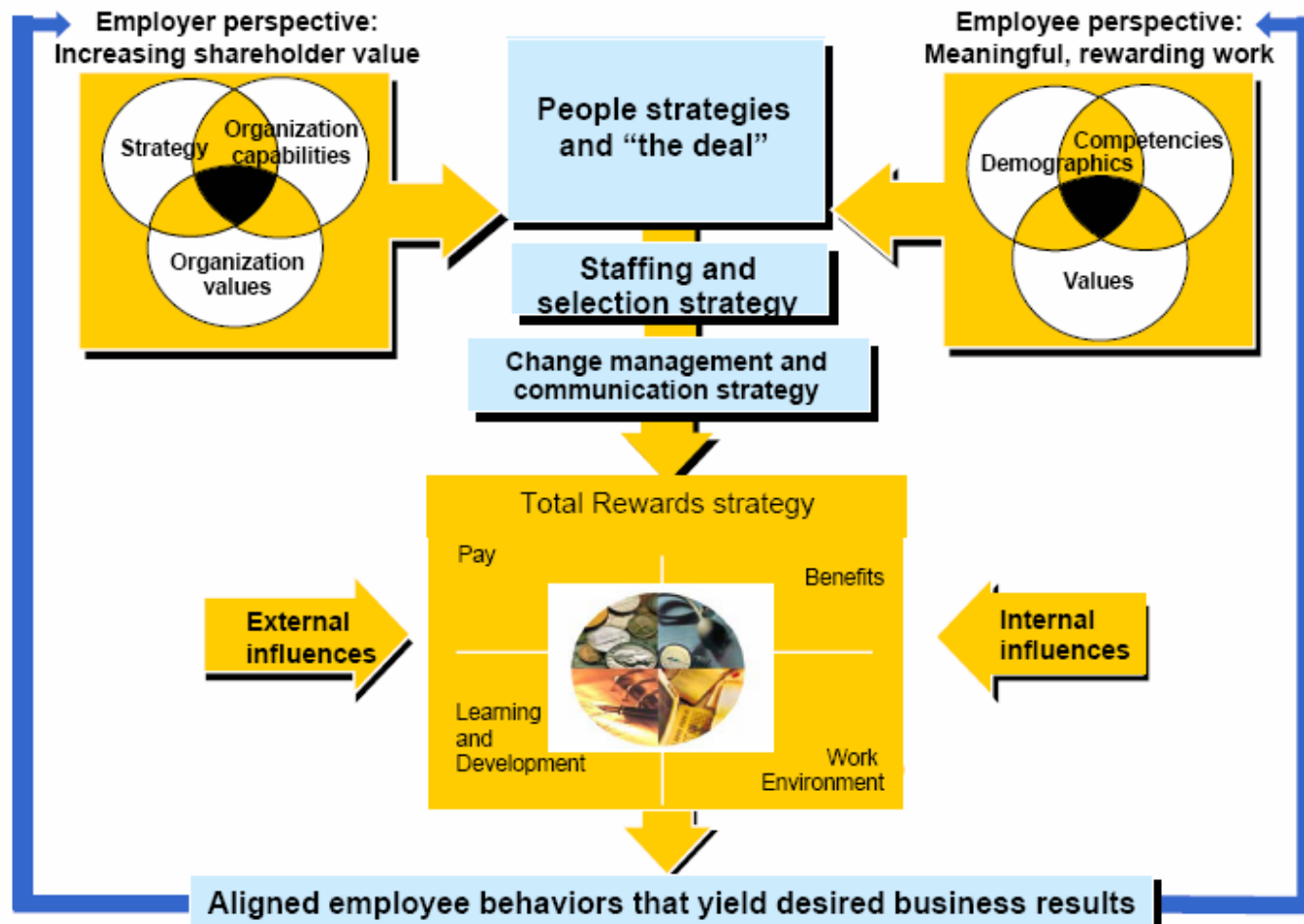
Volatility

Volatility is often viewed as a negative in that it represents uncertainty and risk. However, volatility can be good in that if one shorts on the peaks, and buys on the lows one can make money, with greater money coming with greater volatility. The possibility for money to be made via volatile markets is how short-term market players like day traders hope to make money, and is in contrast to the long term investment view of buy and hold

Agenda:

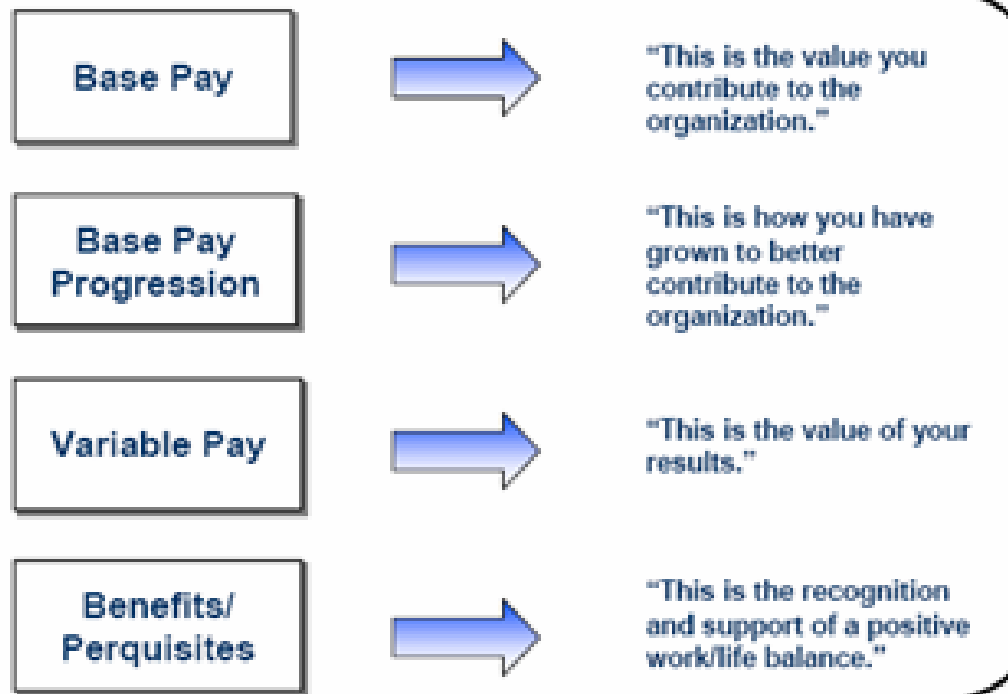
- Relevance of retirement benefits in the total remuneration concept
- AP scenario before the crisis
- Crisis scenario
- Learnings for employers
- Learnings for investors/employees
- Summary

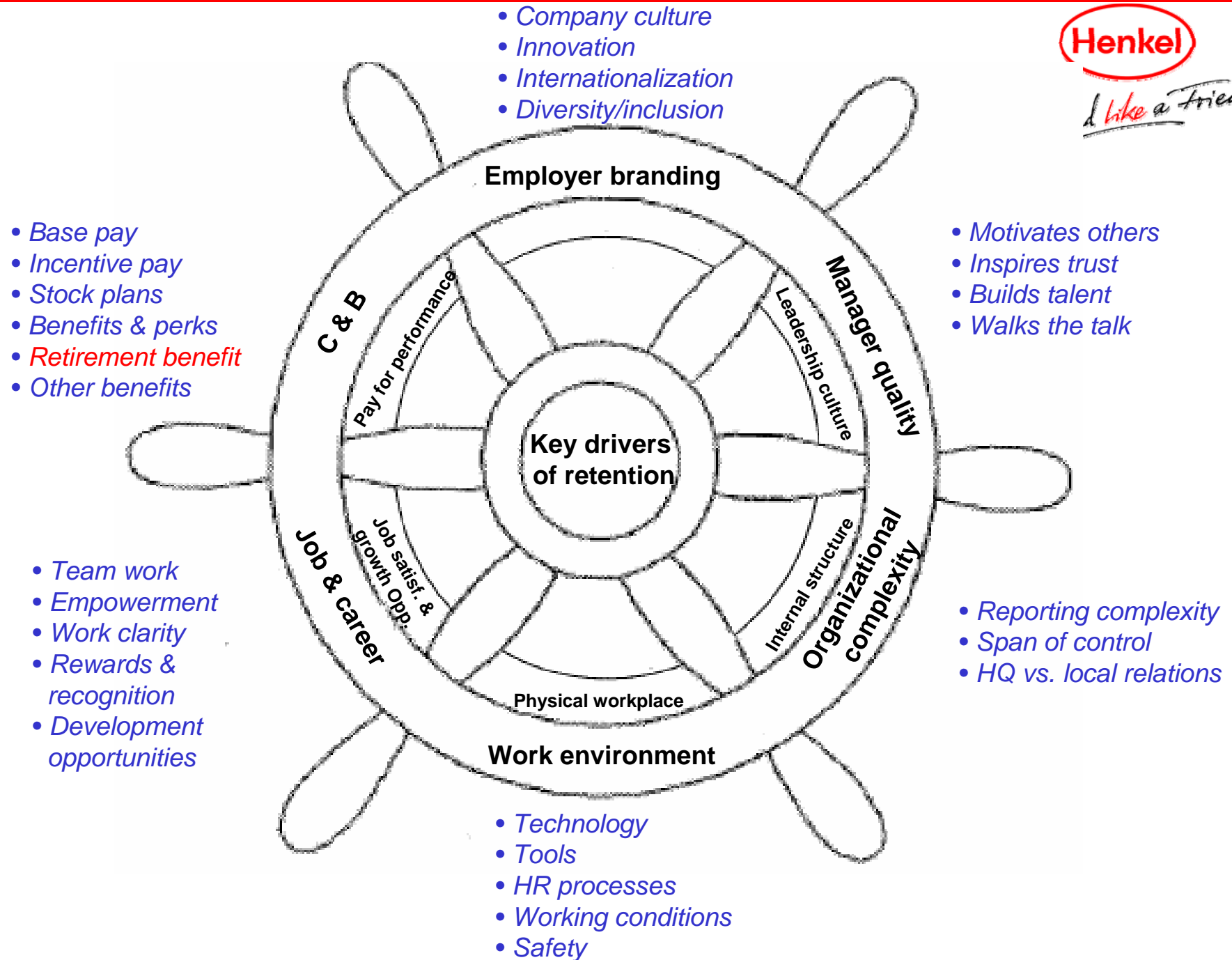
Defining an effective deal to your employees



Multiple and Differentiated Rewards

Expect every compensation dollar to directly contribute to your strategy:





Henkel's retirement plan basics

- Objective is to provide competitive retirement, death and disability coverage in order to recruit and retain talent in highly competitive labor markets
- Company provided retirement plans have to be separate from social security schemes, integrated schemes – where applicable – need to be converted
- Preferred plan design is Defined Contribution (DC). If legally not possible or advisable, Cash Balance (CB) plans are the best alternative. Only if DC and CB are not allowed a Defined Benefit (DB) plan may be implemented
- DB plans have to be shifted into DC or CB plans unless legally and economically not feasible
- Employee contributions are preferred where this is tax effective and in line with local market practice
- Retirement should normally provided in the form of annuities. Full or partial commutation into a lump sum may be feasible for local tax reasons and local market practice
- A choice of a single life annuity or joint life and survivor pension may be offered where possible
- Basic rationale for funding is to provide security for the payment of benefits, separate from the assets of the employer. Preference is to be given to external funding and has to be in line with approved accounting standards

Scenario in November 2007:

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- Old-age dependency ratios in most Asia-Pacific markets will worsen between now and 2050 due to falling fertility rates and increasing longevity
- Pension assets in the region are expected to increase by a 9,2% compound annual growth rate (CAGR), raising assets under management to EUR 3,116 billion by 2015, from EUR 1,407 billion in 2006. Strongest growth will occur in emerging markets, at a 17,2% average CAGR
- The dramatic trend towards funded DC plans presents major opportunities to domestic and global financial institutions across the region. Taken together these trends indicate that the expertise of professional asset managers will be decisive in delivering financial security to many of Asia's future pensioners
- Growth of DC pension plans will be essential for emerging and developed markets alike

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Pre-crisis alert:

“It is essential that financial institutions have the expertise to support government initiatives to raise awareness of the need to save more for retirement and to improve financial literacy, so that individuals can make informed choices. The move to DC places a considerable burden on individuals, who are directly exposed to financial markets and who will rely increasingly on financial institutions to help them achieve financial security during their working lives and for their retirement or old age.”

“Individual choice in DC funds is gaining in popularity with options available to a greater or lesser extent in Australia, Hong Kong, India, Japan, Singapore and Korea. Fund choices will be essential for individuals in their investment decisions.”



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HSI 23 October 2007 31.638,22

HSI 24 October 2008 12.618,38

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Reality Q4/2008

As of 7 October 2008 retirement plans in the US had lost as much as \$2 trillion over 15 months, or some 20% of their value according to the Congressional Budget Office of the United States

And, the US is one of the better-performing world markets. From the market peak in 2007, the S&P 500 is off 42,5%, the MSCI index of developed countries down 49,4% and the index for emerging markets down 55,8%

Learnings for employers

- Implementation of DC plans is the correct strategy to protect companies from market volatility especially in times of recessive business environment
- Communication to employees about the implications of DC plans is essential, employees have to be trained (by external advisors) how to practice a balanced risk/return level strategy
- Negotiate hard on management fees and actuarial costs
- Explore economies of scale when purchasing life and disability insurance coverage as an add-on to DC arrangements
- Set up plans with shared financing (where suitable)
- Use your retirement plan design as part of the employer value proposition to existing and newly recruited staff

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Learnings for investors/employees

- Measure your total capital: Financial capital plus human capital. If your human capital is safe your non-human capital can be tilted towards equities at a young age and tilted towards bonds at an older age

Or: Your bond portion in your portfolio should equal your age

- Think about risk and return chances before you select your investment option
- Stocks and bonds have an internal rate of return. For bonds it is the interest rate compounded over the years. For stocks it is today's dividends yield of x% and an implied x% earnings growth

With commodities, you are betting solely on the expectation that you will sell at a higher price than you bought

- Your retirement plan performance secures income when you have no other income, don't gamble with it

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Wealth destruction in action

- Erosion of household wealth
- Deep concerns about retirement income level
- Government interventions in favor of DB plans likely
- Restoring confidence
- Path forward

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Crisis

危機

Danger

Opportunity

