Keysight Technologies UK Limited Retirement Benefits Plan

Statement of Investment Principles

1. Background

1.1 This Statement of Investment Principles (the "Statement") sets down the principles governing decisions about investments for the Keysight Technologies UK Limited Retirement Benefits Plan (hereinafter referred to as "the Plan") to meet the requirements of the Pensions Act 1995, as amended by the Pensions Act 2004 and subsequent regulations. In preparing the Statement, the Trustees have consulted with the principal employer to the Plan, and obtained and considered written professional advice from their investment consultants, Mercer Limited ("Mercer").

1.2 The Trustees do not expect to revise this Statement frequently because it covers broad principles. However, the Trustees will review the Statement at least once every two years, and without delay if there are relevant, material changes to the Plan and/or the sponsoring company. These include changes in the Plan's liabilities and finances and in the attitude to risk of the Trustees or the sponsor company.

1.3 The Trustees maintain an Investment Implementation Policy Document ("IIPD"), which contains more detail on the Plan's investment arrangements. This document, whilst complementing the Statement, does not form part of the Statement and therefore the principal employer is not consulted in relation to changes to this document.

2. **Decision-Making Structure**

2.1 The Plan's assets are held in Trust by the Trustees. The Trustees are responsible for the investment of the Plan's assets and their investment powers are set out in the Plan's Trust Deed. The Trustees take some decisions and delegate the balance. When determining which decisions to delegate, the Trustees have taken into account whether they have the appropriate training and are able to secure the necessary expert advice in order to take an informed decision. Further, the Trustees' ability to effectively execute the decision is also considered.

2.2 Overall the Plan's investment policy falls into two parts. The strategic management of the assets, including setting the asset allocation guidelines, is fundamentally the responsibility of the Trustees acting on advice from their investment consultant, Mercer, and is driven by their investment objective as set out in Section 3 below.

2.3 The remaining elements of policy, including investment restrictions and the performance objectives, are reflected in the mandates and agreements that have been put in place with the investment managers. The day to day management of the assets is delegated to professional investment managers and is described in Section 6.

3. Investment Objectives

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

3.2 The Trustees, in consultation with the Principal Employer, have agreed the following specific objectives to set the employer contribution at a level which is sufficient:

- To recover any shortfall in assets relative to the value placed on the accrued liabilities on an appropriate low-risk Long Term Funding Target by 2034.
- To ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payments to members.

3.3 These objectives are not mutually exclusive and in setting any long-term investment strategy the Trustees have to balance achievement of one of these goals against the other.

3.4 In setting these objectives, the Trustees recognise that the investment policy requires a level of risk to be taken relative to the liabilities.

4. Investment Strategy

4.1 As part of a strategic review in early 2020, the Trustees recognised that there was scope to significantly reduce the allocation to growth assets and still achieve the Plan's Long Term Funding Target by 2034. As part of subsequent discussions with the Company, it became apparent that a review of the Long Term Funding Target, as well as the Technical Provisions basis, would be undertaken as part of the 30 September 2020 actuarial valuation. In view of the unprecedented market conditions and threats to global growth, the Trustees and Company agreed that they would reduce the growth asset allocation to 15% on a temporary basis and this was implemented in May 2020.

4.2 In March 2021, the Plan invested in a bulk annuity policy whereby c.40% of total assets were transferred to an insurer. Due to the illiquid nature of the bulk annuity policy, following implementation the Plan's investments are effectively divided into two sections; the bulk annuity policy (c.40% of assets) and the investable portfolio (c.60% of assets).

4.3 In December 2021, the Trustees agreed to transact an additional bulk annuity policy, whereby c.9.5% of the Plan's assets were transferred to the insurer. Therefore, the Plan's investments are currently divided between c.49.5% of assets in the bulk annuity policies and c.50.5% of assets in the investable portfolio.

4.4 The Trustees reviewed the overall investment strategy and agreed that the Plan's benchmark allocation of 20% growth / 80% matching (75% LDI & buy-in and 5% credit) of total Plan's assets remained the optimal approach following the second buy-in.

4.5 Further details of the investment strategy and the current target allocations can be found in Schedule A of the IIPD.

4.6 It is the intention of the Trustees to review the investment strategy on a regular basis and at least every two years following actuarial valuations of the Plan.

4.7 The Trustees believe that the investment strategy outlined above is appropriate given the objectives outlined in Section 3 and is minimising the risks outlined in Section 5.

5. Investment Risk

5.1 In determining their investment policy the Trustees have considered the various risks to which the Plan is exposed taking into account the objectives set out in Section 3.

5.2 The Trustees monitor risk in two ways:

- The Trustees have set a strategic asset allocation benchmark for the investable portfolio. They assess risk relative to that benchmark by monitoring the fund's asset allocation and investment returns relative to the benchmark.
- The Trustees also assess risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities (including the income stream received from the bulk annuity policies).

5.3 The Trustees also provide practical constraints on the Plan's investable portfolio from deviating greatly from the Trustees' intended approach by adopting a specific asset allocation benchmark. Specific performance targets, control ranges, and/or tracking error requirements are also provided to managers as deemed appropriate for their mandate.

5.4 In addition, when considering the implementation of the investment policy, the Trustees have considered the risk associated with equity market concentration and credit risk. The Trustees have implemented the following measures to manage the risk associated with the investments:

- To manage mismatch risk between the assets and the liabilities, the Trustees have implemented a Liability Driven Investments (LDI) investment strategy. This LDI strategy ensures that changes in the value of the liabilities due to changes in long-term interest rates or inflation are largely mirrored by similar movements in the value of the Plan's assets.
- To diversify investment risks that the Plan faces, the Trustees invest in multiple asset types including equities and bonds;
- The Plan's equity benchmark has been set to contain a wide range of assets suitable for a pension plan and ensure diversification across the major equity markets;
- The Plan's investable portfolio is divided between a number of investment managers. This reduces the risk associated with one manager having responsibility for all of the Plan's assets;
- To reduce the unrewarded risk associated with the exposure to overseas currencies i.e. the impact currency movements have on the return on overseas equity assets,

the Trustees have implemented a currency hedge (to hedge a proportion of overseas equity exposure).

- Each fund manager has agreed a set of restrictions that govern the management of its pooled fund. The purpose of the restrictions is to limit the risks from each individual investment and to prevent unsuitable investment activity;

- The Plan has invested in bulk annuity policies whereby, in return for the payment of an insurance premium, an insurer assumes responsibility for a portion of the Plan's liabilities. The insurer is exposed to the underlying investment and longevity risk. The Plan is however subject to credit risk in relation to the solvency of the insurer. This risk is mitigated by extensive capital requirements enforced within the insurance regulatory environment. The Trustees have further mitigated this risk through careful choice of insurer and contract terms. The Trustees recognise that the investments in the bulk annuity contracts are illiquid.

6. Day to Day Management of Assets

6.1 The Trustees delegate the day-to-day management of the Plan's investable portfolio to a number of investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

6.2 The Trustees invest the investable portfolio of the Plan in quoted and unquoted securities of UK and overseas markets including equities, fixed interest bonds, index linked bonds, cash and pooled funds. The Plan may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management. The Trustees consider all these classes of investment suitable in the circumstance of the Plan.

6.3 Investment in the investable portfolio is via a mixture of pooled funds and a mixture of active and passive management.

6.4 The overall investment strategy and structure of the Plan is summarised in Schedule A of the IIPD. Each of the individual managers' briefs, including benchmarks and objectives, are also summarised in Schedule B of the IIPD.

6.5 Cashflow Management and Rebalancing

The Trustees have adopted a policy to efficiently manage cashflows and keep the Plan's investable portfolio broadly in line with the benchmark allocation. More details of the cashflow management and rebalancing policy can be found in Schedule D of the IIPD.

7. Investment Manager Terms and Conditions

7.1 The investment managers are regulated by the Financial Conduct Authority ("FCA") and have day to day responsibility for the investment of the Plan's assets. As required by the Financial Services Act 1986, the Trustees have entered into signed Agreements or Policy Documents with the investment managers.

7.2 The documents provide important protections for the Plan itself and for the Trustees. They set out the terms on which the assets are managed, including the investment brief, guidelines and restrictions under which the investment managers work.

8. Additional Voluntary Contributions

8.1 The Trustees give members the opportunity to invest in a range of vehicles at the members' discretion. Details of these vehicles can be found in Schedule E of the IIPD.

9. Realisation of Investments

9.1 Realisation of investments is administered as part of the cashflow management programme - see 6.7 above.

10. Corporate Governance and Environmental, Social and Ethical Considerations

10.1 The Trustees believe that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment risk and return outcomes and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration. The Trustees have taken into account the expected time horizon of the Plan when considering how to integrate these issues into the investment decision making process.

10.2 In April 2022, the Trustees carried out a review of their ESG beliefs and developed a Responsible Investment Policy ("the Policy"). The Policy guides the Trustees when making investment decisions and covers the areas of good stewardship of assets, climate risk measurement and improvement as well as the social and environmental of the Plan's investments. The Policy also takes into the consideration the views of the sponsoring company on ESG issues.

10.3 The Trustees monitor how the investment managers integrate ESG, climate change and stewardship within investable portfolio, taking advice from the investment consultant's assessment of how the Plan's investment managers incorporate ESG into their investment processes on a quarterly basis. Where relevant to the manager's mandate, the Trustees have given them full discretion in evaluating ESG factors, including climate change considerations. In addition, the Trustees have delegated to them engagement with companies, exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

10.4 Member views

The Trustees take into consideration non-financial matters when assessing the overall investment strategy and the investment managers, as such members' views on 'non-financial matters' (where "non-financial matters" include members' ethical views separate from financial considerations such as financially material ESG issues), are not explicitly taken into account in the selection, retention and realisation of investments.

10.5 Investment Restrictions

The Trustees have not set any specific ethical investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

11. Investment Managers monitoring and engagement

11.1 Aligning Manager Appointments with Investment Strategy

- Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which the Trustees have appointed them.

- The Trustees look to their investment consultant (Mercer) for their forward looking assessment of a manager's ability to perform/outperform over a full market cycle. This view is based on the consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in. The consultant's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees. These ratings are used in decisions around selection, retention and realisation of manager appointments.

- If the investment objective for a particular manager's fund changes, the Trustees will review the manager's appointment to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

- One manager appointment is actively managed and the manager is incentivised through remuneration and performance targets (an appointment will be reviewed following periods of sustained underperformance or significant outperformance). The Trustees will review the appropriateness of using actively managed funds (on an asset class basis) as part of each strategic review.

- As the Trustees invest in pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the manager, but believe that appropriate mandates can be selected to align with the overall investment strategy.

11.2 Encouraging long-termism and consideration of ESG issues:

- The Trustees consider the investment consultant's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Policy. This includes the investment managers' policy on voting and engagement, climate related metrics and the social and environmental impact of the Plan's investments. The Trustees will use these assessments in decisions around selection, retention and realisation of manager appointments.

- The Trustees meet with the investment managers approximately annually and can challenge decisions made including voting history (in respect of equities) and engagement activity, and can challenge such decisions to try to ensure the best performance over the medium to long term.

- Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then the manager will be replaced.

11.3 Monitoring manager appointments

- The Trustees receives investment manager performance reports from the investment consultant on a quarterly basis, which present performance information over 3 months, 1 year and 3 years and 5 years periods. The Trustees review absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustees' focus is primarily on long term performance but short term performance is also reviewed.

- If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review their fees instead of terminating the appointment.

11.4 Monitoring portfolio turnover costs

- The Trustees do not currently monitor portfolio turnover costs.

- The Trustees receive MiFID II reporting from their investment managers but do not analyse the information. However, the Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

11.5 Manager Turnover

- The Trustees are long term investor and are not looking to change investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

- The manager appointment is reviewed and the Trustees decide to terminate for a more suitable appointment.

12. Review of this Statement

12.1 The Trustees will review this Statement in response to any material changes to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustees and the sponsor company which they judge to have a bearing on the stated investment policy. Any such review will take place every two years, or after any material change in the investment arrangements. Any such review will again be based on written, expert investment advice and will be in consultation with the sponsor company.

For and on behalf of Keysight Technologies UK Limited Retirement Benefits Plan

December 2022