

Keysight Technologies UK Limited Pension Scheme

The Chair's Annual Governance Statement 2019

This statement has been prepared by the Trustees of the Keysight Technologies UK Limited Pension Scheme to demonstrate how the Scheme has complied with the governance standards introduced under The Occupational Pension Schemes (Charges and Governance) Regulations 2015¹.

Investment strategy

The Trustees have in place a Statement of Investment Principles (SIP) which governs decisions about investments and sets out the aims and objectives of the Scheme's investment strategy, including full information about the Scheme's default investment strategy. In particular it covers:

- The Trustees' investment policy, including policies on risk, return and ethical investing; and
- How the default investment strategy is intended to ensure that assets are invested in the best interests of members and beneficiaries.

The latest SIP was agreed and signed by the Trustees in September 2019. A copy of the SIP is included as an appendix to this Statement.

Default investment strategy

A proportion of members will actively choose the default investment strategy because they believe it is appropriate for them. However, the vast majority of Scheme members do not make an active investment decision and are invested in the default investment strategy option.

The Trustees' objectives in relation to the default strategy and the ways in which the Trustees seek to achieve these, are detailed below:

- To generate returns in excess of inflation during the 'growth' phase of the strategy whilst managing downside risk.

The default strategy's growth phase structure invests 50% in global equities and 50% in a diversified growth fund. These investments are expected to provide long term growth with some protection against inflation erosion, and an element of diversification to reduce volatility and downside risk.

- To provide a strategy that reduces investment risk for members as they approach retirement.

As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees' believe that a default strategy that seeks to reduce investment risk as

¹ Inserted into Regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996

the member approaches retirement is appropriate. This is achieved via automated switches from high risk growth assets to low risk defensive assets.

- To offer to members a mix of assets at retirement that are broadly appropriate for an individual planning to purchase a non-inflation-linked annuity and take the maximum allowable tax-free cash (currently 25%).

At the selected retirement date, 75% of the member's assets will be invested in bonds and 25% in a pooled cash fund.

Based on their understanding of the Scheme's membership, the Trustees believe an investment strategy that targets annuity purchase and a tax-free cash lump sum (25% of a member's pot) at retirement is likely to meet a typical member's requirements for income in retirement. This does not mean that members have to take their benefits in this format at retirement – it merely determines the default investment strategy that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of choosing their own investment strategy.

Taking into account the demographics of the Scheme's membership and the Trustees' views of how the membership will behave at retirement, the Trustees believe that the current default strategy is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner. The last such formal review took place in 2017. Details of the outcome of the review are included under the 'Default investment strategy review' section.

The Trustees' policies in relation to the default investment strategy are detailed below:

- The default lifestyle strategy manages investment and other risks through a strategic asset allocation consisting of equities, diversified growth funds, bonds and cash. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. Any investment in derivative instruments contributes to risk reduction, or efficient portfolio management.
- In designing the default lifestyle strategy, the Trustees have explicitly considered the trade-off between downside risk and expected returns.
- If members wish to, they can opt to choose their own investment strategy or an alternative lifestyle strategy on joining, but also at any other future date.
- Assets in the default lifestyle strategy are invested in the best interests of members and beneficiaries, taking into account the profile of members.
- Assets in the default lifestyle strategy are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.
- The investment managers have responsibility for buying and selling the underlying assets. All of the pooled funds used are daily dealt.
- Assets are invested mainly on regulated markets (those that are not are kept to prudent levels).
- The investment managers also have discretion to incorporate social, environmental and ethical considerations in exercising their delegated responsibilities.

The Trustees, with the guidance of their professional investment advisers, review the performance of the funds underlying the default investment strategy on a quarterly basis.

Default investment strategy review

A review of the Scheme's default investment strategy was undertaken in November 2014. As a result of this review the following decisions were made about the Scheme's existing default investment strategy:

- The de-risking period was changed to seven years
- The underlying investments remained as is

The change to the de-risking period took effect from 1 April 2015.

A further review of the Scheme's default investment strategy and net performance of underlying funds was carried out in December 2016. As a result of the review and following advice from their professional investment adviser in early 2017, the Trustees made a change to the Global Equity Fund (Legal & General 40:60 Global Equity Fund) previously invested 40% in UK equity and 60% overseas equity. With effect from July 2017, the fund changed to invest 30% in UK equity and 70% in overseas equity and was renamed the Legal & General 30:70 Global Equity Fund. A communication notifying the Scheme's members was issued to this effect.

The next review of the Scheme's default investment strategy is scheduled to take place during the second half of 2020.

Default investment strategy

The Scheme's current default lifestyle strategy is summarised in the table below:

Lifestyle Strategy	Growth Phase	Retirement Target	Asset Allocation at Retirement
Option 1 (Default)	50% L&G 30:70 Global Equity 50% Schroder Diversified Growth	Fixed Annuity	75% L&G Pre-Retirement 25% Cash

Default switching from growth to secured income

Members who do not choose a specific Lifestyle Arrangement will be defaulted to 'Option 1', the default and the table below describes the glidepath through to retirement.

Years to retirement	L&G 30:70 Global Equity (%)	Schroder DGF (%)	L&G Pre-Retirement (%)	L&G Cash Fund (%)
7	50.00%	50.00%	0.00%	0.00%
6	42.50%	42.50%	15.00%	0.00%
5	35.00%	35.00%	30.00%	0.00%
4	27.50%	27.50%	45.00%	0.00%

3	20.00%	20.00%	60.00%	0.00%
2	12.50%	12.50%	67.50%	7.50%
1	6.25%	6.25%	72.50%	15.00%
0	0.00%	0.00%	75.00%	25.00%

Financial transactions

The Trustees regularly monitor the core financial transactions of the Scheme.

The core financial transactions include the investment of contributions, transfers into and out of the Scheme, fund switches and payments out of the Scheme and in respect of members. The Trustees have a Service Level Agreement with the Scheme's administrator, Willis Towers Watson, which covers the accuracy and timeliness of all core transactions and requires them to be made within statutory timescales.

The Trustees receive a thorough review of quarterly reporting from the administrator and the monthly monitoring of contribution payments by the Pension Team. Details of core financial transactions are included in the quarterly administration reports including membership changes, retirements, annuities purchased, transfers, & contributions.

The Trustees' professional investment advisers, Mercer, include a summary of the transactions in all quarterly investment reports. The Trustees will continue to review the costs of transactions and their appropriateness going forward.

Willis Towers Watson has undertaken an independent review of the Scheme's governance processes and internal controls and has confirmed that they continue to be compliant with the Pensions Regulator's revised Code of Practice No 13 on governance and administration which is effective from July 2016. The Scheme is also compliant with the Code of Practice no 5 on reporting late payments of contributions and with the relevant legislation.

Based on the above, the Trustees are satisfied that the Scheme's core financial transactions have been processed promptly and accurately during the Scheme year.

Charges and transaction costs

The Principal Employer of the Scheme, Keysight Technologies UK Limited, currently funds all the administrative transaction costs and members only incur the investment related charges and transaction costs.

Investment Manager Fees

The Annual Management Charges (AMCs) and transactions costs applied to the Scheme's default arrangement and other funds are set out below:

Default Fund (growth component)*	Fee (% p.a.)
50% L&G 30:70 Global Equity/50% Schroder DGF	0.417
Legal & General	Fee (% p.a.)
30:70 Global Equity**	0.184
UK Ethical Equity	0.20
UK Equities	0.10
Over 5 year Index Linked	0.10
Pre-Retirement	0.15
Cash	0.125
Schroder	Fee (% p.a.)
Diversified Growth Fund	0.65
Prudential M&G	Fee (% p.a.)
Property Fund	0.55

*The Default Fund fee has been estimated by Mercer based on the underlying AMC of the 30:70 Global Equity Fund and the Schroder Diversified Growth Fund.

**The 30:70 Global Equity Fund is a bespoke fund investing in the individual underlying Legal & General UK Equity Index Fund and the World (ex UK) Equity Index Fund. The fee stated is the estimated fee based on the underlying fee basis of the funds.

Transaction costs & additional charges

Transaction costs are those incurred as result of buying, selling, lending or borrowing investments. The tables below summarise how the fees and expenses for each manager are broken down:

Fund	Annual Management Charge (AMC)	Additional Charges	Total Expense Ratio (TER)	Transaction Costs**	Bid/offer spread***
L&G 30:70 Global Equity Fund*	0.184%*	0.09%	0.193%*	-0.017%	0.13%
L&G UK Equity Index	0.10%	0.03%	0.13%	-0.02%	0.78%
L&G Ethical UK Equity Index	0.20%	-	0.20%	0.02%	0.78%
L&G Over 5 Year Index-Linked	0.10%	-	0.10%	-0.07%	-
L&G Pre-Retirement	0.15%	-	0.15%	0.01%	0.68%
L&G Cash	0.125%	-	0.125%	-	-

Fund	Annual Management Charge (AMC)	Additional Charges	Total Expense Ratio (TER)	Transaction Costs**	Bid/offer spread***
Schroder Diversified Growth Fund	0.65%	0.04%	0.69%	0.44%	0.20%

Fund	Annual Management Charge (AMC)	Additional Charges	Total Expense Ratio (TER)	Transaction Costs**	Bid/offer spread***
Prudential M&G Property Fund	0.55%	0.44%	0.99%	-0.10%	6.87%

*Estimated by Mercer based on current arrangement of 30% in UK Equity Index Fund and 70% in World ex UK Index Fund.

**Transaction costs to 30 September 2019. These are costs associated with buying and selling securities (such as equities and bonds) within a fund with the aim of achieving the fund's objectives. These are incurred by all investors in the fund and vary year on year. The transaction costs are borne by the members in addition to the Total Expense Ratio (TER).

***Indicative bid/offer spreads are as at 30 September 2019. Spreads will vary subject to market conditions. L&G Global 30:70 Equity spread estimated based on 30:70 split of component parts spread. The bid/offer spread costs only apply when members switch between or encash their investment funds.

Value for Members (VfM)

The Trustees are committed to ensuring that the Scheme provides value for its members (i.e. the costs and charges deducted from members' pots and contributions paid provide good value in relation to the benefits and services provided by or on behalf of the Scheme). The Trustees undertake periodic Value for Members (VfM) assessments in line with The Pensions Regulator's revised Code of Practice No 13, with support from their advisers, and have included it as an item on the Scheme's risk register.

In early 2020, the Trustees received an independent Value for Members (VfM) assessment from Willis Towers Watson which concluded that the Scheme provides good value for members. This assessment included or noted the following:

- A benchmarking exercise to compare the weighted average charges paid by members against those of other similar pension arrangements.
- Members receive a comprehensive and high-quality administration service, the costs of which are met by the Principal Employer, Keysight Technologies UK Limited.
- The Scheme provides a varied range of investments for members, including lifestyle strategies and self-select funds which are appropriate for the Scheme's membership.
- The Scheme engages with its members and provides them with online access to their accounts.
- In addition to the cost of Willis Towers Watson's administration service, costs associated with the independent advice received by the Trustees are met by Keysight Technologies UK Limited.

In accordance with The Pensions Regulator's revised Code of Practice No 13 and with the relevant legislation, the Trustees concluded that the Scheme represents good value for its members and have agreed the following statement:

This statement has been produced by the Trustees of the Keysight Technologies UK Limited Pension Scheme ("the Scheme") to document the Trustees' assessment of whether the DC Pension Scheme represents VfM, after considering advice from its advisers, Willis Towers Watson.

The Trustees believe that Value for Members comprises of the relationship between two elements:

- *The costs of pension scheme membership*
- *The benefits of pension scheme membership*

The charge levied on members is primarily the Total Expense Ratio (TER). The TER for the funds under the arrangement ranges from 0.10% pa to 0.99% pa. In addition, there are various transaction costs.

The AMC for the default option is 0.417% (TER 0.4415%). This is below the DWP charge cap of 0.75% and broadly in line with Schemes with a similar fund range. It is also in line with the average charges for trust-based DC schemes of FTSE 350 companies from Willis Towers Watson's latest survey.

The Trustees continue to monitor the overall demographic of the Scheme's members when assessing the value to its members. This forms part of the Trustees' ongoing governance of the Scheme.

The Scheme offers a wide range of benefits to members. The key benefits the Trustees believe members value are:

- *Active & ongoing governance of all aspects of the Scheme*
- *Access to nine lifestyle strategies including a default option, with three risk based options for the growth phase and three different retirement options, targeting the purchase of a fixed annuity, income drawdown or cash at retirement*

- *Access to a range of passively and actively managed funds which the Trustees believe provide appropriate strategic choices for members' different savings objectives*
- *Effective administration services meeting all service level agreements*
- *Tailored online & mobile access for monitoring & servicing*
- *Ongoing communications and presentations on pensions issues*
- *Flexibility and support at retirement including free access to annuity brokerage*

The Trustees conclude that overall, the Scheme represents good value for its members in respect of the costs of pension scheme membership.

Costs and charges illustrations

The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 require the Trustees to produce a “£ and pence” illustration showing the compounded effect of costs and charges. As a result the Trustees have set out an illustration below which shows the projected value, over different time horizons, of the default lifestyle strategy and the two largest self-select funds by asset value. The assumptions made to calculate the illustrations are shown below the table.

Example Member	Projection period (years)	Lifestyle Strategy (Default)		Legal & General Global Equity 30:70 Fund		Prudential M&G Property Fund	
		Before charges	After charges	Before charges	After charges	Before charges	After charges
Youngest member	1	£1,800	£1,800	£1,800	£1,800	£1,800	£1,800
	3	£5,700	£5,600	£5,700	£5,700	£5,600	£5,600
	5	£9,800	£9,700	£9,900	£9,900	£9,600	£9,400
	10	£21,500	£20,800	£22,000	£21,800	£20,700	£19,800
	15	£35,300	£33,600	£36,800	£36,200	£33,300	£31,100
	20	£51,800	£48,300	£54,700	£53,600	£47,800	£43,500
	25	£71,300	£65,200	£76,400	£74,600	£64,400	£57,200
	30	£94,500	£84,700	£103,000	£99,900	£83,400	£72,100
	35	£116,100	£102,600	£135,200	£130,400	£105,100	£88,500
38	£122,800	£108,500	£157,800	£151,700	£119,700	£99,100	
Average member	1	£55,800	£55,500	£56,100	£56,000	£55,400	£55,000
	3	£68,100	£66,900	£69,000	£68,700	£66,700	£65,200
	5	£81,200	£79,000	£82,900	£82,300	£78,700	£75,800
	10	£118,300	£112,400	£123,000	£121,300	£111,500	£104,000
	15	£159,900	£148,900	£171,700	£168,300	£149,200	£135,000
	20	£187,300	£173,400	£231,000	£225,100	£192,200	£169,000
Approaching retirement	1	£109,900	£109,600	£113,200	£113,000	£111,900	£110,900
	3	£128,100	£127,400	£141,100	£140,500	£136,600	£133,400

Assumptions and notes

1. Projected pension account values are shown in today's terms.
2. Contributions and costs/charges that are shown as a monetary amount reduction are paid halfway through the year.
3. Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.
4. Charges and costs are deducted before applying investment returns.
5. Switching costs are not considered in the lifestyle strategy.
6. Inflation is assumed to be 2.5% each year.
7. Contributions are assumed from age 22 to 60 for the youngest member, from 40 to 60 for the average member and from 57 to 60 for the member approaching retirement. Contributions increase in line with assumed earnings inflation of 0% per year (in real terms).
8. Values shown are estimates and are not guaranteed.
9. The real projected growth rates for each fund are as follow:
 - Lifestyle strategy (default) – from -0.125% to 3.5% (adjusted depending on term to retirement)
 - Legal & General Global Equity 30:70 Fund – 4.0%
 - Prudential M&G Property Fund – 2.75%
10. Transactions costs and other charges have been provided by Mercer and covered the year to 30 September 2019.
11. The Scheme's normal retirement age is 60.
12. Example members
 - Youngest: age 22, total annual contribution: £1,800, starting fund value: £0.
 - Average: age 40, total annual contribution: £4,000, starting fund value: £50,000.
 - Approaching retirement: age 57, total annual contribution: £9,000, starting fund value: £100,000

Trustees' knowledge and understanding (TKU)

The Trustees have a strong TKU process in place which enables them, together with the advice available to them, to exercise their functions as Trustees of the Scheme. The Trustees' approach to meeting the TKU requirements includes:

- All Trustees have completed tPR's trustee toolkit.
- The Trustees review their training needs at each Trustees' meeting as part of their ongoing TKU assessment.
- Any gaps identified in the TKU assessment are addressed by revisiting tPR's trustee toolkit and undertaking specific and focused training.
- New Trustees are required to complete tPR's trustee toolkit.
- Trustees receive updates on topical issues at each Trustees' meeting (and also on an ad hoc basis via email).

Taking into account the actions carried out as a trustee body and the professional advice available to them, the Trustees are satisfied that they are compliant with The Pensions Regulator's revised Code of Practice No 13 and the Code of Practice No 7 on TKU. The Trustees are also satisfied that they have met the relevant legislative requirements.

Signed by the Chair on behalf of the Trustees of the Scheme:

David Park

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David Park

20th June 2020

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Date