

# **Keysight Technologies UK Limited Pension Scheme**

## **Statement of Investment Principles – September 2020**

### **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 Pension Scheme (hereinafter referred to as “the Scheme”) to meet the requirements of:
- The Pensions Act 1995, as amended by the Pensions Act 2004;
  - The Occupational Pension Schemes (Investment) Regulations 2005, as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015; and
  - Subsequent legislation.
- 1.2 In preparing the statement the Trustees have consulted with the principal employer to the Scheme, and obtained and considered written professional advice from their investment advisers, Mercer Limited (“Mercer”) which is regulated by the Financial Conduct Authority (“FCA”).
- 1.3 The Trustees maintain an Investment Implementation Policy Document (“IIPD”), which contains more detail on the Scheme’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. Investment Objectives**

- 2.1 The Trustees recognise that members have differing investment needs and that these may change during the course of members’ working lives. The Trustees also recognise that members have different attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances. The Trustees’ primary objective is therefore to make available a range of investment options for this purpose.
- 2.2 The Trustees undertake to review the Scheme’s fund choices offered to members and the investment manager arrangements on a regular basis.
- 2.3 The Trustees also recognise that, despite encouragement, many members may not believe themselves qualified to make their own investment decision. Therefore, the Trustees have a default option available for members.

### **3. Investment Strategy**

- 3.1 In choosing the Scheme's investment options, it is the policy of the Trustees to consider:
- i. A full range of asset classes, including alternative asset classes;

- ii. The suitability of different styles of investment management and the need for investment manager diversification;
  - iii. The suitability of each asset class within a defined contribution scheme;
  - iv. The need for appropriate diversification.
- 3.2 The Trustees make available a range of funds which they believe provide appropriate strategic choices for members' different saving objectives, risk profiles and time horizons. Members themselves determine the fund(s) in which they choose to invest. (Details of the range of funds can be found in Schedule A of the IIPD).
- 3.3 Members can choose fund(s), and the balance between different kinds of investments, which they deem appropriate to their needs. Members should consider the trade-off between risk and expected return. The balance of investments will determine the expected return on member's assets and should be related to their own risk appetite and tolerances.
- 3.4 Each fund used in the Scheme has an associated benchmark or target which the Trustees view as the expected return. Information on the benchmarks and/or targets for the investment options available is noted in the IIPD. The Trustees have regard for the relative investment return, net of fees, and risks that each fund is expected to provide.
- 3.5 Currently the funds available to members' new contributions include equity and bond funds, a cash fund and a diversified growth fund. Legal & General funds are managed predominately on a passive basis; in contrast Schroder and M&G manage the funds on an active basis.
- 3.6 In addition, members have the option of having their funds invested in a range of "automatic" lifestyle matrices where members' funds are invested in higher risk type funds such as equities and diversified growth funds when members are younger and as the member nears their target retirement age are switched to funds designed to match how members wish to take their benefits (fixed annuity, income drawdown or cash). Details of the lifestyle matrices are provided in Schedule B of the IIPD.
- 3.7 Members who do not indicate a preference are invested in the default lifestyle option which targets the purchase of a fixed annuity at retirement.
- 3.8 The assets are invested in daily dealing pooled funds and the investment managers have discretion over the management of assets to ensure sufficient liquidity. These pooled funds are themselves regulated and underlying investments are all mainly in regulated markets, and therefore should be realisable at short notice, based on member or Trustees' demand. Where the pooled funds do not invest assets in regulated markets these are not expected to account for a material proportion of assets.
- 3.9 In considering appropriate investments for the Scheme, the Trustees have obtained and considered the written advice of their investment adviser, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section

36 of the Pensions Act 1995. The Trustees periodically review the suitability of the options provided and from time to time will change or introduce additional investment funds as appropriate.

#### 4. **Investment Risk**

4.1 The Trustees have considered investment risk from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

<b>Risk</b>	<b>How it is managed</b>	<b>How it is measured</b>
<p><b>Inflation Risk</b></p> <p>The real value (i.e. post inflation value of members' accounts) decreases.</p>	<p>The Trustees provide members with a range of funds, across various asset classes, with the majority expected to keep pace with inflation (with the exception of the money market and bond funds).</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p>	<p>Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation.</p>
<p><b>Pension Conversion Risk</b></p> <p>Member's investments do not match how they would like to use their pots in retirement.</p>	<p>The Trustees make available three lifestyling targets for DC members (cash, drawdown or annuity) with a variety of growth phase options.</p> <p>Lifestyle strategies automatically switch member assets as they approach retirement into investments that are expected to be less volatile relative to how they wish to access their pension savings. These lifestyling strategies increase the proportion of assets that more closely match the chosen retirement destination as members approach retirement. This aims to reduce the risk of a substantial fall in the purchasing power of their accumulated savings near retirement.</p> <p>Lifestyle strategies and the suitability of the default investment option are reviewed at least triennially.</p>	<p>Considering the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms as well as relative to inflation, cash or annuity prices (depending on their selected retirement destination).</p>
<p><b>Market Risk</b></p> <p>The value of securities, including equities and interest bearing assets, can go down as well as up.</p>	<p>The Trustees provide members with a range of funds, across various asset classes. Members are able to set their own investment strategy in line with their risk tolerances.</p> <p>For the multi-asset funds which are targeting non-market benchmarks, this is delegated to investment managers.</p>	<p>Monitoring the performance of investment funds on a quarterly basis.</p>
<p><b>Counterparty Risk</b></p> <p>A counterparty, either an underlying holding or pooled arrangement, cannot meet its obligation.</p>	<p>Delegated to investment managers.</p> <p>Members are able to set their own investment allocations, in line with their risk tolerances.</p>	<p>Monitoring the performance of investment funds on a quarterly basis.</p>
<p><b>Currency Risk</b></p> <p>The value of an</p>	<p>The Trustees provide diversified investment options that invest in local as well as overseas markets and currencies.</p>	<p>Monitoring the performance of investment funds on a</p>

investment in the member's base currency may change as a result of fluctuating foreign exchange rates.	The currency hedging used in the blended global equity fund is reviewed at least triennially as part of the default review.  Currency hedging for actively managed strategies is delegated to the investment manager.	quarterly basis.  Consideration to the movements in foreign currencies relative to pound sterling.
<b>Operational Risk</b>  A lack of robust internal processes, people and systems.	The investment managers' internal control reports are reviewed by the Trustees on an annual basis.	Consideration of the investment managers' internal control reports.
<b>Liquidity Risk</b>  Assets may not be readily marketable when required.	The Trustees access daily dealt and daily priced pooled funds.	The pricing and dealing terms of the funds underlying the unit-linked insurance contracts.
<b>Environmental, Social and Governance Risk</b>  ESG factors can have a significant effect on the performance of the investments held by the Scheme e.g. extreme weather events, poor governance.	The Trustees' policy on ESG risks is set out in Section 8 of this Statement.	Section 8 of this Statement also covers how the Trustees monitor the extent to which managers integrate ESG factors and active ownership into their core processes.

4.2 The Trustees believe that the investment strategy outlined in section 3 is appropriate for meeting the risks outlined above. In particular, for members who do not wish to take an active role in the investment decisions, the Trustees offer, as a default, a "lifestyle" option to members designed to help them manage the risks outlined above.

4.3 The risks identified in the table in section 4.1 are considered by the Trustees to be 'financially material considerations'. The Trustees believe the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their selected retirement age. It is for this reason that a number of lifestyle options have been made available to members.

## 5. **Default Investment Option**

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

5.1 The Trustees' objectives in relation to the default option, 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 Trustee believes that a default strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. This is achieved via automated lifestyle switches.*

- 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 (up to 25% of a members' 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 but will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

## 5.2 The Trustees' policies in relation to the default option are detailed below:

- Currently the funds used in the default investment option include equity and bond (i.e. pre retirement) funds, a cash fund and a diversified growth fund. The equity and bond funds are managed predominately on a passive basis; in contrast the diversified growth fund and cash fund which are managed on an active basis.
- 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 risk and expected returns. The Trustees have regard for the relative expected investment return, net of fees, and expected risk when choosing the balance between the different kinds of investments and how the default is designed.

- 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. All funds are daily-dealt pooled investment arrangements. These pooled investment arrangements are themselves regulated and underlying investments are all mainly in regulated markets, and therefore should be realisable at short notice, based on member demand.
- The investment managers have responsibility for buying, selling and realisation of the underlying assets.
- The Trustees have considered risks from a number of perspectives. The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

Risk	How it is managed	How it is measured
<b>Inflation Risk</b> The real value (i.e. post inflation value of members' accounts) decreases.	During the growth phase of the default investment option the Trustees invest in a diversified range of assets which are likely to grow in real terms.	Considering the real returns (i.e. return above inflation) of the funds, with positive values indicating returns that have kept pace with inflation.
<b>Pension Conversion Risk</b> Member's investments do not match how they would like to use their pots in retirement.	The default investment option is a lifestyling strategy which targets tax free cash sum and annuity purchase at retirement.  The Trustees believe this is the most suitable approach based on their understanding of the Scheme's membership.  As part of the default strategy review (undertaken at least triennially), the Trustees ensure the default destination remains appropriate.	Considering the returns of the funds used within the switching phase of the lifestyle strategy both in absolute terms as well as relative to annuity prices.  The triennial default strategy review includes consideration of how members of the Scheme are taking their savings at retirement. Wider industry trends are also considered.
<b>Market Risk</b> The value of securities, including equities and interest bearing assets, can go down as well as up.	The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members at various stages of the lifestyle by the Trustees.	Monitoring the performance of the default investment strategy on a quarterly basis.
<b>Counterparty Risk, Currency Risk and Operational Risk</b>	In line with main Scheme (detailed in Section 4.1)	In line with main Scheme (detailed in Section 4.1)
<b>Environmental, Social and Governance Risk</b> ESG factors can have a significant effect on the performance of the investments held by the Scheme e.g. extreme weather events, poor governance.	In line with the main Scheme.  The Trustees' policy on ESG risks is set out in Section 8 of this Statement.	In line with the main Scheme.  The Trustees' policy on ESG risks is set out in Section 8 of this Statement.

- The risks identified in the above table are considered by the Trustees to be ‘financially material considerations’. The Trustees believe the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member’s age and their selected retirement age. It is for this reason that a lifestyle strategy is used for the default investment option.
- Non-financial matters, including member views, are not taken into account in the selection, retention and realisation of investments in the default option.
- 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.

## 6. **Day to Day Management of Assets**

- 6.1 The Scheme’s assets are invested via long term insurance contracts with Legal & General Assurance (Pensions Management Limited), Schroder Pension Management Limited. There are also some legacy assets invested in a Property Fund under the management of M&G Real Estate. The underlying assets are invested in investment funds managed by: Legal & General Investment Management (“Legal & General”), Schroder Pension Management Limited (“Schroder”) and M&G Investment Pooled Pensions (“M&G”) (previously Prudential).
- 6.2 All contributions made by or in respect of the members who do not wish to indicate a preference are allocated to the default lifestyle strategy which invests in a passive equity fund and an active diversified growth fund initially and then gradually switches into bonds and cash as the member nears their target retirement age, targeting the purchase of a fixed annuity at retirement.
- 6.3 Detail on each individual fund including their performance benchmarks are summarised in Schedule A of the IIPD.

## 7. **Investment Manager Terms and Conditions**

- 7.1 The investment providers including the underlying investment managers are regulated by the Financial Conduct Authority (“FCA”) and have day to day responsibility for the investment of the Scheme’s assets. As required by the Financial Services Act 1986, the Trustees have entered into signed Agreements with the managers (in the form of a Policy Document for Legal & General and M&G). A summary of the investment management fees are provided in Schedule C of the IIPD.
- 7.2 The Agreements provide important protection for the Scheme itself and for the Trustees. It sets out the terms on which the assets are managed, including the investment brief, guidelines and restrictions under which the investment managers work.

## 8. **Environmental, Social and Governance ('ESG'), Stewardship and Climate Change**

- 8.1 The Trustees believe that ESG issues may have a material impact on investment risks 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.
- 8.2 The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and 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. Managers' engagement policies are expected to include all relevant matters including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.
- 8.3 The Trustees seeks to manage the risks and opportunities associated with ESG, climate change and stewardship by considering how these factors are integrated within investment processes in appointing new investment managers and monitoring existing investment managers. This is done by using specific ESG fund ratings provided by the Scheme's investment adviser. These ratings represent the extent to which managers integrate ESG factors and active ownership into their core processes. The ESG ratings for the existing investment managers are provided on a quarterly basis.

## 9. **Member views**

- 9.1 Non-financial matters, including member views, are not taken into account in the selection, retention and realisation of investments. However, the Trustees have made available a UK Ethical Equity fund as self-select option for members. The underlying investments of this fund exclude companies involved in business activities that do not comply with a range of ethical and environmental guidelines.

## 10. **Arrangements with Asset Managers**

- 10.1 The Trustees appoint investment managers based on their capabilities and, therefore the perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. The Trustees look to its investment advisor for their forward looking assessment of a manager's ability to outperform over a full market cycle. This view will be based on the advisor's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The advisor's manager research ratings assist with due diligence and questioning managers during presentations to the Trustees and are used in decisions around selection, retention and realisation of manager appointments.
- 10.2 As the Trustees invest in pooled investment vehicles they accept that they have no ability to influence investment managers to align their decisions with the Trustees'



policies set out in this Statement. However, appropriate mandates can be selected to align with the Trustees' overall investment strategy.

- 10.3 The Trustees expect investment managers to incorporate the consideration of longer term factors, such as ESG factors, into their decision making process where appropriate. Voting and engagement activity should be used by investment managers to discuss the performance of an issuer of debt or equity. The Trustees also consider the investment adviser's assessment of how each investment manager embeds ESG into its investment process and how the manager's responsible investment philosophy aligns with the Trustees' responsible investment policy. The Trustees will use this assessment in decisions around selection, retention and realisation of manager appointments.
- 10.4 The Trustees' focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a timely manner. The Trustees review both absolute and relative performance against a portfolio or underlying investment manager's benchmark on a quarterly basis, including assessments of both shorter and longer time horizons. The Trustees also rely upon Mercer's manager research capabilities. The remuneration for investment managers used by the Scheme is based on assets under management; the levels of these fees are reviewed annually to ensure they continue to represent value for members. If performance is not satisfactory, the Trustees may request further action be taken, including a review of fees.
- 10.5 Portfolio turnover costs for each of the funds are reviewed on an annual basis as part of the annual value for members assessment. The ability to assess the appropriateness of these costs is currently limited by the availability of data and the lack of industry-wide benchmarks. The Trustees will monitor industry developments in how to assess these costs and incorporate this in future value for members assessments. Importantly, performance is reviewed net of portfolio turnover costs.
- 10.6 The Trustees are long term investors. All funds are open-ended and therefore there is no set duration for manager appointments. The Trustees are responsible for the selection, appointment, monitoring and removal of the investment managers. The available fund range and Default Investment Option are reviewed on at least a triennial basis. A manager's appointment may be terminated if it is no longer considered to be optimal nor have a place in the default option or general fund range.

## 11. **Compliance with this Statement**

- 11.1 The Trustees will review this Statement on the advice of the Scheme's advisers on an annual basis or more frequently if circumstances dictate. If the Statement is revised, the Trustees will provide the investment managers with the revised Statement.

David Park

**Trustee**

21st September 2020

**Date**

David Morris

**Trustee**

21st September 2020

**Date**

**For and on behalf of Keysight Technologies UK Limited Pension Scheme**

**September 2020**