Applied Materials (UK) Pension and Family Security Scheme

Statement of Investment Principles – September 2020

1. Introduction

The Trustees of the Applied Materials (UK) Pension and Family Security Scheme ("the Scheme") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of Section 35 of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes Regulations 2005, as amended from time to time. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investments. A separate document detailing the specifics of the Scheme's investment arrangements is available upon request.

In preparing this Statement the Trustees have consulted the Scheme sponsor to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme's investment arrangements. The Trustees have obtained written advice from the Scheme's Investment Consultant, Mercer Limited.

The Scheme is divided into two main parts: (i) the **Defined Benefit Section** and (ii) the **Defined Contribution Section**.

2. Fund Governance

2.1 The Trustees

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. Furthermore, the Trustees' ability to effectively execute the decision is considered too.

2.2 The Investment Managers

The Investment Management Agreements specify:

- The investment objectives of the investment managers along with the benchmark;
- The time scale of performance measurement and assessment.

3. Process For Choosing Investments

The process for choosing investments is as follows:

- Identify appropriate investment objectives;
- Agree the level of risk consistent with meeting the objectives set;

- Construct a portfolio of investments that is expected to maximise the return (net of all costs) given the tolerable level of risk.

In considering the appropriate investments for the Scheme the Trustees have obtained and considered the written advice of the Investment Consultant, 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 (as amended).

4. Investment Objectives

4.1 Defined Benefit Section

The Trustees' objective is to invest the Scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework the Trustees seek to manage the Scheme's asset allocation in a manner that controls risk, costs and over time allows the Trustees to reduce reliance on covenant.

4.2 Defined Contribution Section

The Trustees recognise that members of the Defined Contribution section have differing investment needs and that these may change during the course of members' working lives. They also recognise that members have different attitudes towards risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances. The Trustees' objective therefore is to make available a range of investment options which should assist members to:

- To maximise members' assets;
- To maintain the purchasing power of members' savings;
- To provide protection for accumulated assets in the years approaching retirement;
- To allow members to tailor their investment choices to meet their own needs.

To meet these objectives the Trustees have selected a range of actively and passively managed funds for members to select from, as well as a number of "Lifestyle" approaches which helps members plan for retirement. The range of options includes equities, bonds, diversified growth funds, pre-retirement funds and money market instruments.

If selecting their own investments, the balance between the different kinds of investments is the member's decision. This balance will determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerance.

The Trustees regularly review the suitability of the options provided and from time to time will change or introduce additional investment portfolios as appropriate. Members are advised to seek independent financial advice if they are unsure as to the appropriate investment strategy for their needs.

The items set out in Section 4.2, 5.2, and 9 of this Statement are in relation to what the Trustees deem as ‘financially material considerations’ for the DC Section. Sections 6.2 and 6.3 apply specifically to the default strategy. The Trustees believe the appropriate time horizon for which to assess these considerations should be viewed at a member level. This will be dependent on the members’ age and when they expect to retire. It is for this reason that the default is a lifestyle strategy.

5. Risk Management and Measurement

There are various risks to which any pension scheme is exposed, which the Trustees believes may be financially material to the Scheme. Should there be a material change in the Scheme’s circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate. Specific considerations to Environmental, Social and Governance (“ESG”) issues are addressed in Section 10.

The Trustees have considered the following risks:

5.1 Defined Benefit Section

- *Risk of erosion by inflation*. The Scheme’s liabilities are explicitly linked to price- and wage inflation. The Scheme’s long-term financial soundness will be determined by whether investment returns are at least in line with those assumed by the actuary in establishing the Scheme’s funding position.

- *Asset and liability mismatch risk*. The Trustees have put in place an investment strategy which has significant equity exposure and therefore generates a significant asset / liability mismatch risk. The Trustees accept the risk inherent in such a strategy as they are comfortable with the covenant of the sponsor of the Scheme.

- *Liquidity risk*. The Scheme must be able to meet its liabilities as and when they become due. Consequently, the Scheme holds the majority of investments in easily marketable and realisable assets to meet such benefit payments as and when they become due.

- *Market risk.* The value of securities, including equities, foreign exchange and interest bearing assets, can go down as well as up.

- *Risk from lack of diversification.* The Trustees are satisfied that the spread of assets by type and the investment managers’ policy on investing in individual securities within each type provides adequate diversification of investments.

- *Credit risk.* This reflects the possibility that the payments due under a bond (interest and principal) might not be made by the issuer.

- *Currency risk.* This arises through investment in non-Sterling assets, given that the Scheme’s liabilities are denominated in Sterling, because changes in exchange rates will impact the value of assets relative to liabilities. The Trustees have decided to hedge 50% of the currency exposure from its developed equity portfolio and to hedge all non-Sterling exposure from fixed income back to Sterling, in order to reduce volatility from currency effects.

- *Environmental, social and governance ("ESG") risk.* The risk that ESG factors, including climate change, have a financially material impact on the return on the Scheme's assets. The management of this risk is delegated to the investment managers. See Section 10 of this Statement for the Trustees' responsible investment and corporate governance statement.

The Trustees believe that the investment strategy outlined in section 6 is appropriate for meeting the risks outlined above.

5.2 Defined Contribution Section

The Trustees have considered risk for the DC Section of the Scheme from a number of perspectives. The below list is not exhaustive but covers the main risks that the Trustees consider to be financially material and how these are managed and measured. 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 when they expect to retire. The risks considered are:

	Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that investment returns do not keep pace with inflation.	The Trustees make available a range of funds, across various asset classes, with the majority expected to keep pace with inflation.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	Members are able to set their own investment allocations, in line with their risk tolerances. The Trustees offer lifestyle options that aim to reduce overall investment risk as the member approaches retirement.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	The funds managed by Mercer are considered to have adequate diversification across asset class, region and within each asset class. Management of these funds is the

		responsibility of the Delegated Investment Manager.
Equity, property and other risks	Risks additional to those above where the income or the capital value of an asset is uncertain owing to, for example, changes in the profitability of an issuing company.	Within active funds, management of these risks are the responsibility of the investment manager. The trustee monitors the investment funds and outsources this responsibility to the Delegated Investment Manager for the relevant funds. The Trustees regularly review performance of investment funds.
Environmental, Social and Corporate Governance risk	The risk that environmental, social or corporate governance concerns (including climate change) have a financially material impact on the return of the Scheme's assets.	The management of ESG related risks is delegated to the investment managers. See Section 10 of this Statement for the Trustees' Socially Responsible Investment and Corporate Governance statement. The Trustees review the Mercer Stewardship Monitoring Report on an annual basis.
Investment Manager risk	The risk that the investment fund underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	The Trustees consider the Investment Consultant's opinion of strategies not managed by the Delegated Investment Manager. The Delegated Investment Manager takes responsibility for the management of this risk for the Mercer funds. The Trustees regularly review performance of investment funds.
Liquidity risk	The risk that the Scheme's assets cannot be realised at short notice in line with member demand.	The Scheme is invested in daily dealt and daily priced pooled funds.

Mismatch risk	The risk that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The Trustees makes available three lifestyle strategies for DC members. Lifestyle strategies automatically switch member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age. Members can select a lifestyle strategy in accordance with their personal preferences and retirement objectives.

6. Investment Strategy

6.1 Investment strategy for the Defined Benefit Section

Given the investment objectives, the Trustees have implemented the investment strategy for the Defined Benefit Section as set out below and as detailed further in the separate "Summary of Investment Arrangements". The Trustees, based on advice from the Investment Consultant, believes that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

Asset Class	Target Benchmark Allocation (%)
UK Equities	9.0
Overseas (Developed Markets) Equities*	18.0
Emerging Markets Equities	3.0
All Stocks Gilts	5.0
UK Over 15 Years Index Linked Gilts	41.0
Corporate Bonds	10.0
Multi-Asset Credit	7.0
Secured Finance	7.0
Total	**100.0**

*50% currency hedged back to Sterling

6.2 Investment strategy for the Defined Contribution Section

6.2.1 Default Investment Option ("Default")

Typically, a proportion of members will actively choose the Default because they feel it is most appropriate for them. However, the vast majority of members do not make an active investment decision and are invested in the Default. The Default is a lifestyle strategy targeting income drawdown at retirement.

The Default aims to generate investment returns, in a risk-controlled manner, which are sufficient to provide a reasonable level of retirement benefits for members, given the level of contributions paid over their lifetime in the Scheme.

The objectives of the Default, and the ways in which the Trustees seek to achieve these objectives, are detailed below:

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

The growth phase of the Default initially invests 50% in the Blackrock (30:70) GBP Hedged Global Equity Index Tracker, and 50% in the Mercer Diversified Growth Fund. These investments are expected to provide returns above inflation, in line with equities, but with some downside protection over the long term. The downside risk from an equity market downturn is mitigated through the Mercer Diversified Growth Fund allocation.

- *To provide a strategy that reduces investment risk for members as they approach retirement, while maintaining some level of growth. The Trustees' full policy with regards to risk is detailed in Section 5.2 of this Statement.*

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

These risks are managed via automated lifestyle switches to a fund suitable for facilitating income drawdown over the eight year period to a member's selected retirement date.

- *To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to access their savings in the Scheme flexibly at retirement.*

At the member's selected retirement date, 25% of their assets will be invested in the Aviva Cash Fund and 75% in the Mercer Diversified Retirement Fund. This allocation is expected to provide an element of capital preservation while providing some growth potential for members wishing to access their savings through income drawdown and sufficient liquidity for withdrawal of a 25% tax-free cash lump sum.

More information on the default option can be found in the Summary of Investment Arrangements ("SIA").

The Trustees have the following policies in relation to the Default:

- The Default manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the Default, and the asset classes included, the Trustees have explicitly considered the trade-off between risk and expected returns. The list in the table below is not exhaustive but covers the main risks that have been considered that the Trustees consider to be financially material. 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 when they expect to retire.

<table>
<tr><th>Risk</th><th>Description</th><th>How is the risk monitored and managed?</th></tr>
<tr><td>Inflation risk</td><td>The risk that investment returns do not keep pace with inflation.</td><td rowspan="4">The Trustees regularly review performance of investment funds. The Trustees monitor the performance of the growth phase against inflation.

The strategy for the Default is set with the intention of diversifying these risks to reach a level deemed appropriate.</td></tr>
<tr><td>Currency risk</td><td>The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.</td></tr>
<tr><td>Credit risk</td><td>The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.</td></tr>
<tr><td>Equity, property and other risks</td><td>Risks additional to those above where the income or the capital value of an asset is uncertain owing to, for example, changes in the profitability of an issuing company.</td></tr>
<tr><td>Environmental, Social and Corporate Governance risk</td><td>The risk that environmental, social or corporate governance concerns (including climate change) have a financially material impact on the return of the Scheme's assets.</td><td>Managed in line with the risks in Section 5.2.</td></tr>
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Investment Manager risk	The risk that the investment fund underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines.	Managed in line with the risks in Section 5.2.
Liquidity risk	The risk that the Scheme's assets cannot be realised at short notice in line with member demand.	Managed in line with the risks in Section 5.2.
Mismatch risk	The risk that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The Default is a lifestyle strategy which automatically switches member assets as they approach retirement age into investments whose value is expected to be less volatile relative to variable income/ drawdown and taking a 25% cash lump sum. As part of the triennial default review, the Trustees ensure the default destination remains appropriate.

- 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.

- Assets in the Default are invested in a long-term insurance contract. The assets underlying the insurance contract is invested in daily traded pooled funds which hold highly liquid assets. The underlying fund managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The Trustees' full policies on Socially Responsible Investment and Corporate Governance are detailed in Section 10.

- 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. Details of the funds available in the Defined Contribution Section are detailed in the SIA.

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 is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

6.2.2 Self-select funds

The Trustees make available a range of funds and lifestyle strategy options for the DC Section of the Scheme 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.

The two alternative lifestyle strategies (in addition to the Default) have been designed to be appropriate for the alternative ways in which members could take their benefits at retirement (Annuity or Cash). Assets will be switched into investments which seek to more closely match how the member wishes to access their pension savings as they approach retirement.

In addition to the above mentioned lifestyle strategies, the DC Section comprises of a self-select fund range. Active management options are offered to members within this fund range. The SIA provides more information on these fund options. The Delegated Investment Manager and the Trustees, for the respective funds under their purview, are responsible for the selection, appointment, removal and monitoring of underlying investment managers.

Members determine the balance between the different kinds of investments they hold. This balance will determine the expected return on member's assets and should be related to the member's own risk appetite and tolerances.

7. Day–to-Day Management of the Assets

The Trustees delegate the day-to-day management of the assets to their investment managers. The Trustees have taken steps to satisfy themselves that the managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which each appointed investment manager may operate.

The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed managers and the balance between active and passive management, which may be adjusted from time to time. However any such adjustments would be done with the aim of ensuring the overall level of risk is consistent with that being targeted.

Details of the appointed managers can be found in the SIA, which is available to members upon request.

8. Additional Assets

Under the terms of the trust deed the Trustees are responsible for the investment of additional voluntary contributions (AVCs) paid by members. The Trustees review the investment performance of the chosen providers on a regular basis and takes advice as to the providers' continued suitability.

9. Selection, Retention and Realisation of Investments

The investment managers have discretion in the timing of the selection, retention and realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

Assets in the DC Section, including the default lifestyle strategy, are invested in a long-term insurance contract. The assets underlying the insurance contract are invested in daily traded pooled funds which hold highly liquid assets, and therefore should be realisable at short notice based on either Trustees' or member demand. The pooled funds are commingled investment vehicles which are managed by various underlying fund managers. The selection, retention and realisation of assets within the pooled funds are delegated to the respective underlying fund managers in line with the mandates of the funds.

Member views are not explicitly taken into account in the selection, retention and realisation of investments.

10. Socially Responsible Investment and Corporate Governance

The Trustees believe that good stewardship and environmental, social and governance (ESG) issues may have a financially 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 may require explicit consideration.

The Scheme's assets are managed in pooled arrangements and the Trustees accept that the assets are subject to the managers' policies on the extent to which ESG considerations are taken into account in the management of the underlying pooled fund assets.

Once appointed, the Trustees give appointed investment managers, including the Delegated Investment Manager, 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. The Trustees also regularly reviews the Investment Consultant's ESG ratings of the appointed investment managers.

The Trustees consider Mercer's assessment of how ESG, stewardship and climate change are integrated within the investment managers' investment processes and how they align with the Trustee's policies in appointing new investment managers and monitoring existing investment managers. This includes the asset managers' policies on voting and engagement. The investment managers are expected to provide a summary of their ESG policies and to comment on these issues as part of any meeting with the Trustees.

Non-financial considerations, including member views are not explicitly taken into account in the selection, retention and realisation of investments.

The Trustees have not set any investment restrictions on the appointed investment manager in relation to particular products or activities.

11. Investment Manager Arrangement Policies

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 they are selected.

The Trustees will review an appointment if the investment objective for an investment manager's fund changes to ensure it remains appropriate and consistent with the Trustees' wider investment objectives.

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

The 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 they will look to review the appointments.

For passively managed mandates, or those where outperformance is not the primary goal, the Trustees will seek guidance from the Investment Consultant in relation to their forward looking assessment of the manager's ability to achieve the stated mandate objectives.

The Investment Consultant's manager research ratings assist with due diligence and where available are used in decisions around selection, retention and removal of manager appointments.

The investment manager is aware that their continued appointment is based on the success in delivering the mandate for which they have been appointed to manage. If the Trustees are dissatisfied, then they will look to review the appointment.

Evaluating Investment Manager Performance

The Trustees receive investment manager performance reports from the Investment Consultant on a six-monthly basis, which present performance information over various time periods. The Trustees review the absolute performance of the relevant funds, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (where available, over the relevant time period).

If a manager is not meeting performance objectives, their investment objectives for the mandate have changed, or there is a significant change to the Investment Consultant's rating of the manager, the Trustees may review the manager's appointment or ask the manager to review their fees initially instead of terminating the appointment.

The investment managers are remunerated by way of a fee calculated as a percentage of assets under management.

The Trustees meet the Scheme's investment managers from time to time to review their actions together with the reasons for and background behind the investment performance. The Investment Consultant supports the Trustees in fulfilling their responsibility for monitoring the investment manager.

With regards to the DC section, the Trustees review the investment manager fees as part of the annual Value for Members' assessment.

Portfolio Turnover Costs

The Trustees do not currently monitor portfolio turnover costs but may consider a more active approach in the future. The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In the future, the Trustees may ask investment managers to include portfolio turnover and turnover costs in their presentations and reports to the Trustees and engage with them if portfolio turnover is higher than expected. This may be assessed by comparing portfolio turnover across the same asset class, on a year-for-year basis for the same manager fund, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus (where available).

Duration of Arrangement with Investment Managers

The Trustees are long term investors and are not looking to change investment arrangements on a frequent basis. As the Trustees are invested in open-ended pooled funds, there is no set duration for the manager appointments. The Trustees will retain an investment manager unless:

a) there is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
b) the basis on which the manager was appointed changes materially (e.g. manager fees or investment process); or
c) the Trustees decide to terminate a mandate following a review of the manager's appointment.

12. Compliance with this Statement

The Trustees monitor compliance with this Statement annually and obtain written confirmation from the investment managers that they have given effect to the investment principles in this Statement so far as reasonably practicable and that in exercising any discretion the investment managers have done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

13. Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.