The Applied Materials (UK) Pension and Family Security Scheme (the "Scheme")
Annual governance statement by the Chair of Trustees
Period ended 5 April 2020

As Chair of Trustees I am pleased to present this statement of Governance, as set out in regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended) (the 'Administration Regulations'), showing how we have met certain minimum governance standards in relation to the defined contribution benefits within the Scheme, over the period from 6th April 2019 to 5th April 2020. This includes both the Defined Contribution (DC) Section and the AVCs in the Defined Benefit (DB) Section of the Scheme. This Statement is also being published on a publically available website.

The minimum governance standards cover the following principal areas relating to the Scheme's defined contribution benefits:

- The investment strategy relating to the Scheme's default investment arrangement and wider self-select fund range;
- The processing of core financial transactions;
- Charges and transaction costs within the Scheme including the pounds and pence illustration of the compounding effect of charges;
- Value for Members assessment; and,
- The Trustees' compliance with the statutory knowledge and understanding (TKU) requirements.

In describing how the Trustees have sought to achieve the standards, we provide the various statutory disclosures required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

This Statement does not contain advice in respect of actions that members should take and is not intended to be used for that purpose. If members need advice, a list of local independent financial advisers can be obtained on-line at www.unbiased.co.uk.

Important Note Regarding the Covid-19 Pandemic

This Chair Statement provides disclosures relating to the year to 5 April 2020 and in 2020 the Trustees recognise they have seen major falls in global investment markets caused by the Covid-19 pandemic and restrictions imposed by governments around the world aimed at combatting its spread.

Apart from triggering sharp falls in share prices, the Covid-19 pandemic has required the Trustees and their providers to activate business continuity measures since March 2020. I am pleased to confirm that all of the Scheme's operations have been maintained successfully while these measures have been deployed. All monthly contributions due to the Scheme have been paid on time by the Company. The Trustees have not experienced any service disruption from the Scheme's administrator or investment managers. More detailed disclosures on these items will be set out in next year's Chair Statement as appropriate.

The Default Investment Arrangement

The Trustees are responsible for setting the Scheme's investment strategy and for appointing investment managers to carry out that strategy. They must also establish a default investment arrangement for members who do not select their own investment options from the fund range that is available.

The Scheme is used by its sponsoring employer as a Qualifying Scheme for auto-enrolment purposes. Members who join the Scheme and do not choose an investment option are placed into the default investment arrangement for the Scheme. The Trustees are responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the Scheme's default arrangement.

The aims of the default investment arrangement which were in place during the period covered by this statement are detailed below:

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

- To provide a strategy that reduces investment risk relative to the benefits members are likely to take at retirement, as members approach retirement.

- To provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to purchase an annuity and take a tax-free cash lump sum at retirement.

A full formal review of the default investment strategy and fund range was not undertaken during the year, this was last undertaken in 2018 and was implemented in 2020. This review included full member analysis as well as considering industry trends to provide the Trustees with a recommendation for changes to the investments strategies under the Scheme. The main proposals from the review were to:

- Change the default investment strategy to target drawdown rather than annuity at retirement

- Include a diversified growth fund as an element to the fund used in the growth phase – which applies to all of the Scheme's lifestyle strategies

- Remove the options available for members to have lifestyling applied to any investment fund – this is not currently utilised by members and potentially complicates communications

- Reduce the de-risking period from 10 years to 8 years – applying this to all lifestyle strategies

The formal review concluding with investment advice delivered to the Trustees in a letter dated 9 September 2019. The review also considered the wider fund range and as a result it removed the Standard Life GARS fund from the platform, this held no investment by members.

As part of the review, the Trustees agreed to engage with the membership to also get an understanding of members' expected plans for retirement. This was done through a member survey which had a good response rate. Following which it was agreed that the proposals should be implemented. During 2020, work progressed with the implementation of the changes to the investments under the DC Section of the Scheme, and the switch of assets took place on 28 September 2020.

Given this Chair's Statement reflects the position in the year to 5 April 2020 much of the detail reflects the investment range in place during the period.

However, the most recent Statement of Investment Principles is dated September 2020, which sets out the aims and objectives for the investments going forward including the new default strategy. This is attached to this Statement and also covers our policies in relation to matters such as risk and diversification.

The new default investment strategy for members who do not actively make investment selections in the DC Section is a de-risking strategy over 8 years to retirement which targets drawdown – further details of this will be provided in the Chair's Statement next year. There have been no changes to the investment strategy for the members in the DB section with DC AVCs, where the default AVC strategy targets 100% cash at retirement with de-risking over a 10 year period.

During the period covered by this Statement the DC Section default investment strategy, known as the Default Lifetime, gradually switches a member's assets over a 10 year period to the member's selected retirement date (or age 65 if no selection has been actively made) from the Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index Fund to the Aviva Pension Legal & General Pre-Retirement Fund and the Aviva Pension Cash Fund, in a 75%:25% split. This strategy targets for members to take a proportion of their retirement savings as a lump sum and to purchase an annuity with the remainder.

The Default strategy for the AVC section gradually switches a member's assets over the 10 year period to the member's selected retirement date (or age 65 if no selection has been actively made) from the Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index Fund to the Aviva Pension Cash Fund, targeting at the point of retirement the fund being 100% invested in the Cash Fund.

In addition to the default investment strategy in the DC Section, there is also a Cash Lifestyle and Drawdown Destination Lifestyle which can be selected by members who may want to make use of the pension freedoms flexibilities and take their Scheme benefits in a format other than as an annuity. For information, in the new investment range coming available from the end of September 2020, there are also two alternative lifestyles available, and given that the default is targeting drawdown the alternatives target cash and annuity purchase respectively. Additionally, during the period of this Statement there was an Alternative Lifetime strategy which still targets annuity purchase, but had more diversified investments in the growth period.

Members also have the ability to self-select from the following range of funds:

Aviva Pension BlackRock European Equity Index; Aviva Pension Baillie Gifford International; Aviva Pension Baillie Gifford UK Equity Core Pension; Aviva Pension BlackRock Long Term Fund (Aviva Pension BlackRock (60:40) Global Equity Index); Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index; Aviva Pension BlackRock UK Equity Index; Aviva Pension BlackRock World ex UK Equity Index; Aviva Pension Baillie Gifford Managed; Aviva Pension BlackRock Over 15 Year Corporate Bond Index; Aviva Pension Mercer Diversified Growth; Aviva Pension Standard Life Global Absolute Return Strategies (no longer available under the new fund range); Aviva Pension Mercer Diversified Retirement; Aviva Pension BlackRock Over 15 Year Gilt Index; Aviva Pension Legal & General Pre-Retirement; Aviva Pension BlackRock Over 5 Year Index-Linked Gilt; Aviva Pension Cash.

There are also three additional funds available under the AVC arrangement - Aviva Pension BlackRock Japanese Equity Index; Aviva Pension BlackRock Pacific Rim Equity Index; Aviva Pension BlackRock US Equity Index.

The Trustees continue to consider the performance of the investments on a quarterly basis, focusing on the extent that this is consistent with the aims and objectives of the investments and also considering their on-going suitability, taking input from their professional investment advisors. As noted, a review of the investment strategy was undertaken in 2018 concluding with formal advice in a letter dated 9 September 2019 and changes have been implemented as a result of that review.

It should also be noted that some historic AVCs are held for a small number of members in Clerical Medical, in the with-profits fund. There is around £20,000 invested in that policy. The Trustees reviewed the policy during 2017 and during 2018 communicated with members who hold these investments to remind them of their investment decision and options.

Requirements for processing financial transactions

The Trustees are required to explain how they ensure that core financial transactions are processed promptly and accurately. Core financial transactions include (broadly), but are not limited to:

- Investment of contributions paid to the Scheme;
- Transfer of members' assets into and out of the Scheme;
- Switches of members' assets between different investment options available in the Scheme; and

- Payments from the Scheme to or in respect of members.

The Trustees operate a system of internal controls to monitor the Scheme's administration and management. Included in this system are mechanisms for ensuring the prompt and accurate processing of financial transactions. Well documented internal controls are a key element in the Trustees being able to deliver a high quality, risk managed service to members. The internal controls along with the risk register for the Scheme are formally reviewed at each meeting.

The Trustees have delegated the administration of member records, in respect of the DC section and the AVCs, to Aviva and Clerical Medical (in respect of those members holding with-profit AVC investments). There are minimum timescales (service level agreements) with the administrators for the processing of all member related services, including core financial functions such as contribution processing, investment switches, retirement or transfer payments. These timescales are understood by the Trustees and are acknowledged to be well within any applicable statutory timescale. The Trustees also receive and review Management Information reports from Aviva, particularly reviewing the timing of contribution receipts into the Scheme – no further contributions are payable to Clerical Medical.

Aviva are in the process of implementing new service level monitoring and reporting which considers the timescales for the end to end processing of administration tasks, which is more akin to how a member would view the timeliness of a procedure. Accordingly, the Trustees are not able to see Scheme level statistics on the performance for the full period. However, the latest report covering the 6 month period to 31st May 2020 showed that 100% of the core financial processes were completed within the agreed service level and over 50% of cases were completed (end-to-end) within less than 5 days.

The Trustees also have the knowledge that the Company provide internal pension support within the HR team and there are regular calls between the client manager at Aviva and HR to update on any cases which arise.

The Trustees appoint an independent auditor, Kreston Reeves LLP, to carry out an annual audit of the Scheme, including the core financial transactions which have taken place during the Scheme year to confirm they have been made in an accurate and timely manner and in line with the required timescales.

During the period there was an issue in respect of an AVC payment not being applied to a member's fund in a timely fashion due to issues with the systems to submit such contributions. When this was identified by Company payroll as part of their reconciliation it was fully investigated by Aviva and subsequently applied to the member's record as if it had been invested in line with the expected timescales.

Adherence to the key administration processes is reviewed annually by the Trustees through the AAF01/06 report provided by Aviva which is an independent audit of compliance with their internal controls and processes. The latest report to 31 December 2018, which has been made available to the Trustees, noted the pension administration activities and controls in place to operate effectively.

The processes adopted by the administrator to help meet the SLA's promptly and accurately include, but are not limited to:

- Contribution processing – the process is automated with validations built in to the administration platform. Manual intervention may be required on an exceptions basis and approval is required separate to the processing; quality audit checks are undertaken on a sample of processes throughout the year; timeliness of processes is monitored and reported on, with escalation where necessary.
- Benefits payable – all processes are undertaken by accredited staff, or appropriately checked; calculations are undertaken on the system with daily price checks and unit reconciliations; for more complex cases specialized processes are in place with additional reviews.
- Investment transactions – dealing teams undertake all transactions on a daily basis, processing movements from the previous day's instructions; dual price checking is in place with additional authorisations required for transactions over a certain size. On-line member switches can only be

done within the secure portal after validation of identity. Unit reconciliations are undertaken daily, with weekly checks and approval.

- Cash safeguarding – only authorised individuals have access to the net payment system and all necessary identification and authorisation devices are securely held; all bank accounts or schemes to which payments are made are validated prior to processing the payments.

The Auditor undertakes checks on contributions which involves obtaining sufficient evidence to give reasonable assurance that contributions reported have in all material respects been paid in accordance with the Schedule of Contributions. The Schedule of Contributions sets out timescales for the Company to remit monthly contributions to the Scheme. It was highlighted in a previous audit that some members do not have standard contribution rates due to historic agreements with the Company. It has been agreed that such variations will be formally referenced in the Scheme records going forward.

The Scheme's Risk Register identifies risks relating to promptness, accuracy and security of Scheme financial transactions and prescribes suitable controls aimed at mitigating those risks which are monitored and reviewed regularly by the Trustees.

Any service issues which have been raised are fully investigated and we are confident that the processes and controls in place with the administrator are robust and will ensure that the financial transactions, which are important to members, are dealt with properly.

The Trustees are satisfied that over the period covered by this statement:

- the administrator was operating appropriate procedures, checks and control;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

Charges and transactions costs

The Trustees are required to report on the charges and transaction costs for the investments used in the default arrangement and their assessment of the extent to which these charges and costs represent good value for members.

The Scheme complies with regulations on charge controls introduced from April 2015. Specifically, all of the funds used in the Scheme's current default investment strategy have a total expense ratio that is below the charge cap of 0.75% p.a. on member-borne deductions.

The transaction costs have been obtained and the table below shows the Administration Cost (the fund's administration and investment cost for the Scheme) and the Total Transaction Cost (which represents the total of the buying and selling costs and lending and borrowing costs). Transaction costs are the expenses associated with a member trading in and out of a fund as well as the investment manager trading a fund's underlying securities, including commissions and stamp duty. Transaction costs are not explicitly deducted from a fund but are captured in its investment performance (in other words, the higher the transaction cost, the lower the returns produced by a fund). The Financial Conduct Authority has provided guidance (in Policy Statement 17/20) to investment managers regarding calculations and disclosures of transaction costs. Due to the way in which transaction costs are required to be calculated, they can be negative or positive in nature; a negative figure is effectively a gain from trading activity, whilst a positive figure is effectively a cost from trading activity.

The detail here has been provided by Aviva as at July 2020. The funds in bold text show the investments underlying the default strategy of the DC section during the period covered by this Statement.

Fund Name	Admin Cost (%)	Total Transaction Cost (%)
Aviva Pension BlackRock European Equity Index	.50	0.0290
Aviva Pension Baillie Gifford International	.73	0.0991
Aviva Pension Baillie Gifford UK Equity Core Pension	.82	0.0467
Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index	.50	0.1386
Aviva Pension BlackRock (60:40) Global Equity Index (Long Term Fund)	.50	0.0465
Aviva Pension BlackRock UK Equity Index	.50	0.1701
Aviva Pension BlackRock World ex UK Equity Index	.50	0.0635
Aviva Pension Baillie Gifford Managed	.73	0.0327
Aviva Pension BlackRock Over 15 Year Corporate Bond Index	.50	0.1210
Aviva Pension Mercer Diversified Growth	.69	0.1892
Aviva Pension Mercer Diversified Retirement	.66	0.1296
Aviva Pension Standard Life Global Absolute Return Strategies	1.34	0.2100
Aviva Pension BlackRock Over 15 Year Gilt Index	.50	0.0212
Aviva Pension BlackRock Over 5 Year Index-Linked Gilt	.50	-0.0238
Aviva Pension Legal & General Pre-Retirement	.51	0.0017
Aviva Pension Cash	.50	0.0084
Aviva Pension BlackRock Pacific Rim Equity Index*	.50	0.0376
Aviva Pension BlackRock Japansese Equity Index*	.50	0.0686
Aviva Pension BlackRock US Equity Index*	.50	0.1701

**only available in the AVC policy*

The charges levied on the investments cover both the investment charges and the administration services provided by Aviva. The Company pays for all advisory costs associated with the operating of the Scheme, which enhances the value that members receive.

With-Profits Investments

It should also be noted that with-profits investments are used by some members under the Scheme, with some DB Section AVC members having Clerical Medical's with-profits investments. Given the implicit charging structure on with-profits investments, we have not included costs and charges information in this Statement.

Providing a comparison between one with-profits fund and its peers is extremely difficult. Each with-profits fund offers different terms and guarantees and, hence, will invest very differently from one another, which in turn impacts the performance received through payouts. Indeed, a specific with-profits fund will often provide different guarantees dependent on when a member started contributing or when each contribution was actually invested. The available universe of with-profits funds is not sufficiently alike to enable relative assessments based on just past or even potential performance.

Payouts on surrender and maturity will reflect all charges incurred, though they are not separately identified. Moreover, the actual performance received by members, net of charges, is only ever known upon maturity/surrender, after any augmentation for guaranteed terms and after the effect of 'smoothing'.

'Smoothing' is an additional comfort factor within with-profits funds. In years when investment performance is high, some of the return is held back to 'top-up' returns when lower performance occurs. Hence, at the point a specific member disinvests, smoothing may reduce or increase the payout relative to the underlying investment performance of the assets, thereby reducing investment risk for the individual investor. Insurers are required to stipulate that the payout in the event of early disinvestment will fall within a specified percentage of the underlying share of the assets attributable to the specific investor. These ranges are targets, they are not guaranteed.

The charging structure on the with-profits fund is not explicit and it is extremely difficult to provide a comparison in a peer group due to the different terms and guarantees on this type of investment. The amount invested in this policy is small in relation to members' overall rights under the Scheme and, following the Pensions Regulator's guidance, the Trustees have adopted a proportionate approach in relation to the amount of governance time and effort expended on AVCs.

Illustration of the compounding effect of charges and transaction costs on members' benefits

In accordance with regulation 23(1) (ca) of the Administration Regulations, as inserted by the 2018 Regulations, the Trustees have prepared a series of illustrations, detailing the impact of the costs and charges typically paid by a member of the DC Section of the Scheme on their retirement savings pot, considering the investments available during the period covered by this Statement. The statutory guidance provided has been considered when providing these examples and the illustrations have been prepared by Aviva.

The below illustration has taken in to account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of cost and charges;
- Adjustment for the effect of costs and charges; and
- Time

The Trustees have considered the following when preparing the illustrations:

- The most popular fund (the BlackRock 30:70 fund for the DC Section and the Baillie Gifford Managed fund for the AVC policy)
- The most expensive fund
- The fund with the lowest expected growth
- The fund with the highest expected growth

	Av BlackRock (30:70) Currency Hedged Global Equity (Aq C)-FPBRCHGP		Av Legal&General(PMC) Pre-Ret-FPLGPREP		Av BlackRock (60:40) Global Equity Index Tracker-FPWIT__P		Av Cash-FPCASH_P		Av Baillie Gifford International-FPINT__P		Av ASI Global Absolute Return Strategies-FPSLGARP		Av Baillie Gifford Managed-FPBMAN_P	
	Assumed growth rate 5%		Assumed growth rate 2.5%		Assumed growth rate 5%		Assumed growth rate 1.5%		Assumed growth rate 5%		Assumed growth rate 3.8%		Assumed growth rate 4.3%	
	Assumed costs and charges 0.65%		Assumed costs and charges 0.52%		Assumed costs and charges 0.52%		Assumed costs and charges 0.53%		Assumed costs and charges 0.77%		Assumed costs and charges 1.48%		Assumed costs and charges 0.69%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£1,200	£1,200	£1,190	£1,180	£1,200	£1,200	£1,180	£1,180	£1,200	£1,200	£1,190	£1,190	£1,200	£1,190
2	£2,430	£2,420	£2,370	£2,360	£2,430	£2,420	£2,350	£2,340	£2,430	£2,410	£2,400	£2,370	£2,420	£2,400
3	£3,700	£3,660	£3,560	£3,530	£3,700	£3,670	£3,510	£3,480	£3,700	£3,650	£3,630	£3,550	£3,660	£3,620
4	£4,990	£4,920	£4,750	£4,700	£4,990	£4,930	£4,650	£4,600	£4,990	£4,910	£4,870	£4,720	£4,920	£4,850
5	£6,310	£6,210	£5,930	£5,860	£6,310	£6,230	£5,790	£5,710	£6,310	£6,190	£6,130	£5,900	£6,200	£6,090
10	£13,400	£13,000	£11,900	£11,600	£13,400	£13,100	£11,300	£11,000	£13,400	£12,900	£12,700	£11,700	£13,000	£12,500
15	£21,500	£20,400	£17,800	£17,100	£21,500	£20,600	£16,500	£15,900	£21,500	£20,200	£19,600	£17,500	£20,400	£19,300
20	£30,500	£28,500	£23,700	£22,500	£30,500	£28,900	£21,500	£20,500	£30,500	£28,100	£27,000	£23,200	£28,400	£26,400
25	£40,700	£37,300	£29,700	£27,800	£40,700	£37,900	£26,300	£24,700	£40,700	£36,700	£34,900	£28,900	£37,200	£33,900
30	£52,300	£46,900	£35,600	£33,000	£52,300	£47,900	£30,800	£28,600	£52,300	£46,000	£43,300	£34,500	£46,800	£41,800
35	£65,300	£57,400	£41,500	£38,000	£65,300	£58,900	£35,100	£32,300	£65,300	£56,100	£52,200	£40,000	£57,200	£50,200
40	£79,900	£68,900	£47,500	£42,900	£79,900	£71,000	£39,200	£35,600	£79,900	£67,100	£61,700	£45,400	£68,600	£59,000
45	£96,500	£81,500	£53,400	£47,600	£96,500	£84,200	£43,200	£38,800	£96,500	£79,000	£71,900	£50,800	£81,100	£68,200
50	£115,000	£95,200	£59,300	£52,300	£115,000	£98,800	£46,900	£41,700	£115,000	£92,000	£82,700	£56,200	£94,700	£78,000

The assumptions used by Aviva in preparing these illustrations are as follows:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
2. Starting pot size is assumed to be nil and future contributions of £100 monthly increasing at 2.5% per annum
3. The table shows an adequate range to cover all members up to normal retirement age
4. Values are estimates and are not guaranteed

Please note the information above provides no guarantees of expected returns and is simply an illustration of the effect of charges that we are required to provide under regulations. When choosing the fund(s) to invest your pension, it is important to consider all the information available and not just the charges. We would recommend members take independent financial advice if they require any assistance with their choice of funds.

Value for Members

The Trustees are committed to ensuring that members receive good value from the Scheme. There is no legal definition of "good value", so the process of determining good value is a subjective one. "Value" is not a straightforward concept to quantify and can be open to broad interpretation.

The Trustees have assessed the extent to which the charges and transaction costs set out above offer good value for members, and are regularly exploring ways in which to enhance the value received by members of the Scheme. Given the imminent changes within the Scheme the Trustees have not undertaken a formal "Value" assessment during the year. However, in preparation for the changes being implemented in 2020, consideration was given to the charges of investments as well as the potential member outcomes. Also, they have continually assessed the performance of various aspects that they consider add value for members throughout the year, such as the administration.

Additionally, a great deal of thought was given in respect to the timing of the investment switch during 2020 given the impact of Covid-19 on investments markets and it was agreed on 8th April 2020 to postpone the original switch time, which had been planned for Q2 2020, in consideration of this.

The Trustees recognise that good value does not necessarily mean the cheapest fund and, in counsel with their advisers they have previously assessed, and continue to consider, the Scheme as providing good value for members considering the following aspects:

- Member borne investment charges for the default and self-select options against comparable alternatives;
- Net of fees investment performance;
- Investment fund range and ratings, including ratings in respect of Environmental, Social and Governance (ESG) considerations;
- Other services paid for by members within the annual charges including administration (considering the performance of Aviva as administrator) and communication, including on-line functionality, modelling tools etc; and
- Wider key areas of the Scheme including governance oversight and features paid for by the Company.

The reasons underpinning the Trustees' conclusion include:

- The funds available were deemed as offering good value in relation to pricing (member-borne charges), performance and our independent investment advisor's investment manager research ratings.
- The Scheme was deemed to be well governed which helps the chances of members achieving good member outcomes in retirement.
- The members also receive value from features provided by Aviva including pre-retirement seminars and those paid for by the Company, including the cost of maintaining a Trustee board with duties to act in the best interests of beneficiaries. These costs include the board's advisory costs.

The Trustees concluded that the Scheme provides good value for members in relation to member-borne deductions. Moreover, additional services such as Trustee governance, adviser fees and additional communications that are paid for by the Company further add value for members at a Scheme-wide level.

Value for Members - Clerical Medical With-Profits fund
As noted, members historically had the option to invest in a With-Profits fund with Clerical Medical and some AVCs remain in that fund. Assessing value for money on a with-profits fund is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that the with-profits fund provides guarantees, whether that is a guaranteed pension, investment return or "just" capital security. Hence, we feel that a general conclusion on whether a with-profits fund offers value for money, ignoring an investor's objectives, is inappropriate as this will vary by member.

Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Scheme to run the Scheme efficiently.
The Trustees recognise that each Trustee must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's statement of investment principles and any other document recording policy for the time being adopted by the Trustees relating to the administration of the Scheme generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investment the assets of occupational pension schemes.

The Trustees have measures in place to comply with the legal and regulatory requirements regarding conversance and knowledge and understanding. Details of how the conversance and knowledge and understanding requirements have been met during the period covered by this statement are set out below.

The Trustees receive professional advice from Mercer and their legal advisers to support them in reviewing the performance of the Scheme and in governing the Scheme in line with the Trust Deed and Rules. The relevant skills and experience of those advisers is a key criterion when evaluating adviser performance or selecting new advisers.

The Trustees are conversant with, and have demonstrated a working knowledge of the Trust Deed and Rules by referring to the Rules as required with the day-to-day running of the Scheme, and the current Statement of Investment Principles which was updated in September 2019 and has been further updated in September 2020 (with the implications of each update being confirmed by the Investment Adviser to the Trustees, in addition to their knowledge of all documents setting out the Trustees' policies for the running of the Scheme. The conflicts of interest policy is considered at each Trustee meeting and has been updated in the period; the Member Nominated Trustee policy was reviewed before embarking on a trustee selection exercise; an Appointment of Chair Policy is formally documented; the risk register is reviewed at each meeting. The Internal Dispute Resolution Procedure has been reviewed in the last two years and subsequently revised. GDPR policy documents have also been reviewed and adopted. The Trustees also regularly consider the performance of their advisers.

The Trustees maintain a training log which is reviewed and updated at each Trustee meeting. Topics for future trustee training are considered in line with Scheme activities.

During the period:

- The Trustees have undertaken ongoing training, both as a group and individually to keep abreast of relevant developments including regularly receiving email bulletins and updates from their advisers on the latest developments affecting defined contribution pensions schemes and include a standing DC section on the agenda for every Trustee Meeting;
- The Trustees (including those newly appointed) have all undertaken modules of TPR's Trustee Toolkit with long standing Trustees having completed a majority of core modules and new Trustees having a target to complete all modules within 6 months of appointment;
- The Trustees are all conversant with the Scheme's own documentation noting the various updates referenced above as well as having referenced the Scheme Rules in respect of specific scenarios as they have arisen including consideration on transfers in;
- The Trustees have all attended a training session specifically in respect of GMP equalisation and cyber security during April 2019;
- The Chair of Trustees has also attended a 2 day virtual pension conference hosted by the Scheme advisers which covered topics such as defined contributions, the future of retirement and ESG.

The Trustees, with the help of their advisers, regularly consider training requirements to identify any knowledge gaps. The Trustees' investment advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. The Trustees' advisers would typically deliver training on such matters at Trustee meetings if they were material.

Taking into account the knowledge and experience of the Trustees with the specialist advice (both in writing and whilst attending meetings) received from the appointed professional advisers, the Trustees believe they are well placed to exercise their functions as Trustees of the Scheme properly and effectively.

Chair's Declaration

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustees of the Applied Materials (UK) Pension and Family Security Scheme to the best of my knowledge.

Signed for and on behalf of Applied Materials (UK) Pension and Family Security Scheme.

Signature: __*G Martin*______________________

Name: __Gillian Martin_________________________
Position: Chair of the Trustees

Date: ____30 October 2020_____________________

Appendix
Statement of Investment Principles dated September 2020

Appendix

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. The Trustees have general investment beliefs which are used to assist in any investment decisions.

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.
- The expected return on the Scheme's DB section assets is expected to exceed that assumed within the latest Actuarial Valuation.

Details on the Scheme's investment managers performance objectives can be found in the Summary of Investment Arrangements.

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. The Trustees have been discussing setting up a journey plan for the Scheme, based on the long-term objective of reaching full funding on a gilts flat basis.

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. 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
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	

			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

The Trustees have some level of interest rate and inflation hedging in place such that it is comfortable that the level is appropriate but have not defined a strategic liability hedge target.

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>
</table>

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 Trustees recognise the importance of their role in relation to stewardship and the need to ensure a high standard of governance and promotion of corporate responsibility in the underlying Scheme assets.

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 investment managers' policies on voting and engagement. The investment managers are expected to engage and influence the companies in which they invest as well as exercise their right to vote on performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance.

The investment managers are expected to provide a summary of their ESG policies including voting and engagement activity 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.

The Trustees will from time to time consider their policy in relation to stewardship

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.

When the Trustees are considering the performance of the manager to decide on their continued appointment, this should include a consideration of the extent to which the investment manager makes decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and engage with issuers of debt or equity in order to improve their performance in the medium to long term.

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.