Texas Instruments Limited Pension Plan

The Chair's Annual Governance Statement 2019

This statement has been prepared by the Trustees of Texas Instruments Limited Pension Plan (the "Plan") to demonstrate how the DC Section of the Plan has complied with the governance standards introduced under The Occupational Pension Schemes (Charges and Governance) Regulations 2015[1].

Investment strategy – relating to the Plan's default[2] arrangement

The Trustees have prepared a Statement of Investment Principles (SIP) which governs its decisions about investments, including their aims, objectives and policies for the Plan's default investment arrangement (The Texas Default 10 Year Lifestyle Strategy). In particular, it covers:

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

The Plan's latest SIP was agreed and signed in November 2017. A copy of the relevant sections of the SIP in relation to the DC Section are included as an appendix to this Statement.

Default investment strategy

The Trustees undertake a review of the performance of the funds annually, and aim to review the default arrangement triennially. The Trustees will undertake an earlier review if there are any significant changes in investment policy or member demographics.

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

The Trustees believe that members should generally make their own investment decisions based on their individual circumstances but has made available a default investment option. The Trustees regard their duty as making available a range of investment options which enables members to tailor their investment strategies to their own needs.

A proportion of members will actively choose the default investment strategy because they believe it is appropriate for them. However, the majority of Plan members choose to make an active investment decision and are therefore invested in one or more of the Plan's self-select funds.

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

[2] The definition of default arrangement in this context is similar to that which relates to the charge cap (with modifications to remove automatic enrolment references) – see Regulation 20 of The Occupational Pension Schemes (Investment) Regulations 2005.

Taking into account the demographics of the Plan's membership and the Trustees' views of how the membership will behave at retirement, the Trustees believe that the current default strategy is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Plan demographic, if sooner.

The last such formal review of the default investment strategy took place in October 2018. As a result of this review as well as the current membership demographics and investment choices, no changes were made to the design of the default arrangement.

Financial transactions

- The Trustees monitor the core financial transactions of the DC Section of the Plan. (These include the investment of contributions, transfers into and out of the Plan, fund switches and payments out of the Plan to and in respect of members.)
- This is achieved through the review of quarterly reporting and monthly monitoring of contribution payments carried out by Aviva.
- The Plan's accounts are audited annually by the Plan's appointed auditors, Ernst & Young LLP.
- Following an independent review of the DC Section of the Plan's governance processes and internal controls (outlined under the Pensions Regulator's revised DC Code of Practice no 13 on governance and administration, effective from July 2016), the Trustees continue to implement the action plan established to fully meet the Pensions Regulator's expectations and to ensure that they continue to be met in the future.
- The DC Section is compliant with the Code of Practice No 5 on reporting late payments of contributions and with the relevant legislation.

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

Fund charges and transaction costs

The Total Expense Ratio (TER) is a measure of the total cost of a fund. The TER consists of the annual management charge or AMC (the fee that the fund company charges annually to manage the fund, typically commission paid to fund managers) plus other charges incurred with running the fund such as legal fees, auditor fees and other operational expenses, which fluctuate over time. For this Plan, the TER was 0.69% for the Plan year to 31 December 2018. Following discussions with the Plan provider, Aviva, this reduced to 0.50% with effect from April 2019.

This cost is paid for by the Company for Active members. Deferred members have this charge deducted from their account.

When a member following the default strategy (The Texas Default 10 Year Lifestyle Strategy) is ten or more years from their Investment Programme Retirement Date (IPRD), their retirement account will be invested in a global equity fund that aims to achieve long-term growth.

When a member is ten years from retirement, their personal account is gradually moved automatically into lower-risk funds (Protection phase). Two years from IPRD, cash is introduced as an asset class.

Details of the TERs for the Texas 10 Year Default Lifestyle Strategy are set out below:

Fund	**TER* % per annum**
Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index Tracker IE	0.69 *(0.50 w.e.f. April 2019)*
Aviva Pension BlackRock Over 15 Year Gilt Index Tracker IE	0.69 *(0.50 w.e.f. April 2019)*
Aviva Pension BlackRock Over 15 Year Corporate Bond Index Tracker IE	0.69 *(0.50 w.e.f. April 2019)*
Aviva Pension BlackRock Sterling Liquidity IE	0.69 *(0.50 w.e.f. April 2019)*

* The member charge is met by the Company for Active members on a quarterly billing basis.

None of the individual components of the default exceed the charge cap (0.75%), so the default will not exceed this benchmark for a member at any point. The member charge is met by the Company for Active members. For Deferred members, the charge is deducted from members' pension accounts.

The TERs applied to all funds used by members of the Plan are set out below:

Fund	**TER* % per annum**
Aviva Pension BlackRock (50:50) Global Equity Index Tracker IE	0.69 *(0.50 w.e.f. April 2019)*
Aviva Pension BlackRock Over 5 Year Index-Linked Gilt Index Tracker IE	0.69 *(0.50 w.e.f. April 2019)*
Aviva Pension BlackRock (30:70) Currency Hedged Global Equity Index Tracker IE	0.69 *(0.50 w.e.f. April 2019)*
Aviva Pension BlackRock Over 15 Year Gilt Index Tracker IE	0.69 *(0.50 w.e.f. April 2019)*
Aviva Pension BlackRock Over 15 Year Corporate Bond Index Tracker IE	0.69 *(0.50 w.e.f. April 2019)*
Aviva Pension BlackRock Sterling Liquidity IE	0.69 *(0.50 w.e.f. April 2019)*

* The member charge is met by the Company for Active members on a quarterly billing basis.

Transaction costs

Transactions costs are those incurred as a result of buying, selling, lending or borrowing investments. This works in a similar way to when you buy or sell a house and incur various charges such as stamp duty, legal fees, estate agent fees etc. These costs are reflected in the value of the assets you buy and sell on any given day.

Typically these costs are reflected in what is known as a ‘spread’; investors buying units in a fund will pay a higher offer price and investors selling units will receive a lower bid price. The difference between these two prices represents the transaction costs associated with buying and selling the underlying assets. The total transaction costs experienced by a member will depend on the funds they invest in and the stage of the respective lifestyle option which the member has reached.

The funds which are available to members through the Plan are priced on a single price basis: this means that the unit price is set to either the bid (lower) or offer (higher) price, depending on whether the aggregated trades on any given day results in a net in-flow of funds, or the fund is a net seller (out-flow). Currently, as there are generally more individuals contributing to these funds rather than withdrawing money, the funds are generally priced on an offer basis.

Each fund will also have underlying transaction costs associated with it due to the cost of trading the underlying assets through the day-to-day investment management of the fund. These costs are calculated by Aviva using their own methods.

As stated previously, the Company meets the transaction cost for Active members. Deferred members have this charge deducted from their account.

Value for Members (VFM)

The Trustees are committed to ensuring that members receive value for money from the Plan (i.e. the costs and charges deducted from members’ pots and contributions paid provide good value in relation to the benefits and services provided by or on behalf of the Plan). The Trustees undertake periodic Value for Members (VfM) assessments in line with The Pensions Regulator’s revised Code of Practice No 13, with support from their advisers.

In October 2018, the Trustees received an independent Value for Members (VfM) assessment from Willis Towers Watson which concluded that the Plan provides good value for members. The VfM assessment considered the following five areas:

- Fund charges and transaction costs
- Investment
- Plan governance and management
- Administration
- Communication

This assessment included or noted the following:

- A benchmarking exercise to compare the weighted average charges paid by members against those of other similar pension arrangements. The charges for the funds available were found to be below average when compared to schemes of similar size and type. The Trustees consequently negotiated a reduction in the charges for all funds within the Plan, effective from April 2019.
- The Plan provides a varied range of investments for members, including lifestyle strategies and self-select funds which are appropriate for the Plan's membership.
- The Trustees invest significant resource and time into the management of the Plan and operates separate sub-committees for investment, administration and governance.
- Costs associated with the independent advice received by the Trustees are met by the Plan.
- The Trustees undertake regular reviews of the suitability of their service providers.
- Members receive a sufficient administration service, the costs of which are met by the Principal Employer, Texas Instruments Limited.
- The Plan engages with its members and provides them with online access to their accounts in addition to their annual benefit statement and Statutory Money Purchase Illustrations (SPMIs).

In accordance with The Pensions Regulator's revised Code of Practice No 13 and with the relevant legislation, the Trustees concluded that overall, the Plan represents good value for its members.

Costs and charges illustrations

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

Example Member	Projection period (Years)	Aviva Pension BlackRock (50:50) Global Equity Index Tracker Fund		Aviva Pensions BlackRock Over 5 Year Index-Linked Gilt Index Tracker Fund	
		Before charges	After charges	Before charges	After charges
Youngest member	1	£8,200	£8,200	£8,000	£7,900
	3	£8,700	£8,600	£7,900	£7,800
	5	£9,300	£9,000	£7,800	£7,600
	10	£10,800	£10,200	£7,600	£7,200
	15	£12,500	£11,500	£7,400	£6,900
	20	£14,400	£13,000	£7,200	£6,500
	25	£16,800	£14,700	£7,100	£6,200
	30	£19,400	£16,700	£6,900	£5,900
	35	£22,500	£18,800	£6,700	£5,600
	38	£24,600	£20,200	£6,600	£5,400
Average aged member	1	£51,500	£51,200	£49,800	£49,500
	3	£54,600	£53,800	£49,300	£48,500
	5	£58,000	£56,500	£48,800	£47,500
	10	£67,200	£63,800	£47,600	£45,100
	15	£77,900	£72,100	£46,400	£42,900
	16	£80,200	£73,900	£46,100	£42,400
Approaching retirement	1	£77,300	£76,900	£74,600	£74,200
	3	£82,000	£80,700	£73,900	£72,700

Assumptions and notes

1. Projected pension account values are shown in today's terms, rounded to the nearest hundred.
2. Costs/charges that are shown as a monetary amount reduction are paid halfway through the year.
3. Investment returns and costs/charges as a percentage reduction per annum are assumed to be deducted at the end of the year.
4. Charges and costs are deducted before applying investment returns.
5. Inflation is assumed to be 2.5% each year.
6. No additional contributions are assumed.
7. Values shown are estimates and are not guaranteed.
8. The real projected growth rates for each fund are as follow:
    - Aviva Pension BlackRock (50:50) Global Equity Index Tracker Fund: 3.0%
    - Aviva Pension BlackRock Over 5 Year Index-Linked Gilt Index Tracker Fund: -0.5%
9. Transactions costs and other charges have been provided by Aviva and covered the year to 5 April 2019.
10. The Scheme's normal retirement age is 65.
11. Example members
    - Youngest: age 27, total annual contribution: nil, starting fund value: £8,000.
    - Average: age 49, total annual contribution: nil, starting fund value: £50,000.
    - Approaching retirement: age 62, total annual contribution: nil, starting fund value: £75,000

Trustee knowledge and understanding (TKU)

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

- Maintaining a rolling programme of bespoke Trustees training, which is delivered over designated training days and within Trustees meetings, where appropriate. This incorporates a plan for future training sessions and relevant topics.
- New Trustees are required to complete the Pensions Regulator's (tPR) Trustee Toolkit
- Recording all training and attendance at appropriate seminars in the Trustees training log in order to support the Chair's statement.
- Circulating to each Trustees hot topics and general updates from its advisers about matters relevant to the Plan.
- Reviewing the training programme annually following a TKU assessment.
- Carrying out a TKU effectiveness self-assessment on an ongoing basis.
- As appropriate, completion of the relevant parts of tPR's Trustee Toolkit.

Willis Towers Watson undertook an independent assessment of the TKU process and has confirmed that it meets the regulatory standards and is therefore compliant with the Pensions Regulator's revised DC Code of Practice No 13 and the Code of Practice No 7 on TKU. The Trustees are satisfied that they have met the relevant legislative requirements.

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

Andreas Topitsch	***5th September 2019***
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Andreas Topitsch	Date