Texas Instruments Limited Pension Plan

Statement of Investment Principles

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September 2020

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1 Introduction

1.1 This document describes the principles currently adopted by the Trustees of the Texas Instruments Limited Pension Plan ("the Plan").

Fund Details

1.2 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to Fund members and their dependants.

Pensions Act 1995

1.3 Under the Pensions Act 1995 (the Pensions Act, updated 2004), Trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement.

1.4 Prior to the preparation of this document, the Trustees consulted with Texas Instruments Ltd ("the Company") and the Trustees will consult the Company before revising this document. However, the ultimate responsibility for determining investment policy lies solely with the Trustees.

1.5 When establishing their investment policy, the Trustees sought advice from the Plan's actuarial and investment advisers, Towers Watson Limited ("Willis Towers Watson"). The Trustees will review this policy periodically, in consultation with their advisers, or where the Trustees think a review is needed for other reasons.

1.6 In setting their policy the Trustees had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustees will consider those requirements on any review of this document or any change in their investment policy. The Trustees will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.

Financial Services and Markets Act 2000

1.7 In accordance with the Financial Services and Markets Act 2000, the Trustees will determine general investment policy, but will delegate day-to-day responsibility for selection of specific investments, and determining the proportion of the Plan invested in the various asset classes, to an appointed Investment Manager or Managers, which may include an insurance company or companies. The Investment Manager shall provide the skill and expertise necessary to manage the investments of the Plan competently.

The Occupational Pension Schemes (Investment) Regulations (2005)

1.8 The Trustees ensure that, in aggregate, the Plan's portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustees will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with their policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustees will use their discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustees' policies, where relevant to the mandate.

Myners Principles

1.9 The Myners Principles makes a number of recommendations for the governance, investment and monitoring of the Plan's assets. The Trustees have reviewed the arrangements for the Plan in the light of the Principles to comply with best practice.

2 Division of Responsibilities

Scheme Governance

The Trustees

2.1 The Trustees are responsible for:

- Agreeing the overall mission of the Plan and its governance structure
- Setting an overall risk budget for the Plan and monitoring the investment strategy versus the risk budget
- Reviewing the suitability of the broad asset allocation policy (ie the division between return seeking and matching assets) following the results of each actuarial review, and/or asset liability study in consultation with the investment consultant and Scheme Actuary.
- Establishing broad ranges within which asset allocation must remain, including admissible asset classes.
- Consulting with the company when reviewing investment policy issues
- Reviewing, at least annually and immediately after any significant changes in investment policy, the content of the SIP and modifying if deemed appropriate.
- Monitoring compliance with the SIP on an ongoing basis
- Monitoring the investment managers, including the returns achieved by the managers relative to their benchmark on a regular basis.

2.2 The Trustees recognise that these responsibilities require a high level of skill and expertise, and they will undertake training and seek advice from their professional advisors as required.

Investment Managers

2.3 The investment managers are responsible for:

- Implementing at their discretion, but within guidelines given by the Trustees, changes in the asset mix and selecting securities within each asset class.
- Providing the Trustees with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolios.
- Providing the performance measurer (as appointed from time to time) with the information necessary to calculate performance statistics.
- Instructing the custodian(s) in respect of any corporate governance activity which is considered to be in the interests of the Plan.

- Informing the Trustees of any changes in the investment objectives or performance objectives of any pooled fund in which the Plan invests as and when such changes occur.
- Investing cash in a suitable low risk manner.
- Giving effect to the principles contained in this Statement as far as reasonably practical.
- Providing the Trustees with any other reporting as required in this Statement, including reporting on sustainability and stewardship.

Investment Consultant

2.4 The investment consultant will be responsible for:

- Participating with the Trustees in reviews of this Statement of Investment Principles.
- Proactively advising the Trustees on:
  - Any changes in the investment managers organisations that could affect the interests of the Plan.
  - Any changes in the investment environment that could present either opportunities or problems for the Plan.
  - Advising on the selection/de-selection of new managers and/or custodians.
- Undertaking project work as required including:
  - Reviews of asset allocation policy.

Scheme Actuary

2.5 The Scheme Actuary's responsibilities include:

- Liaising with the Investment Consultant on the suitability of the Plan's investment strategy, including reviewing asset allocation policy, given the financial characteristics of the Plan.
- Assessing the Plan-specific funding position of the Plan (see Section 3) and advising on the appropriate response to any shortfall.
- Performing periodic actuarial valuations and advising on the appropriate contribution levels.

2.6 The Trustees believe that the current advisory arrangements (using a single firm for both actuarial and investment advice) has certain advantages for the Plan. They will continue with this arrangement until it ceases to be appropriate.

2.7 The Trustees have agreed investment management fees based on the value of the assets under management, on a manager by manager basis detailed in the respective Investment Manager agreements (IMAs). Investment management fees cover a given scope of services which includes consideration of long-term factors and engagement. Consultancy fees are charged on a time cost or fixed cost basis. The Trustees believe these arrangements to be competitive and in line with market practice.

3 Current Investment Principles Defined Benefit Section

Objectives

3.1 Following the announcement of the future closure of the Greenock facility and future cessation of future service accrual, the Plan is looking to meet benefit payments directly from the Plan's assets as and when they fall due. The Plan will also consider the merits of transferring the liabilities to an insurer at an opportune time in the future (i.e. transact a buy-out or buy-in of the Plan's liabilities).

3.2 The investment objectives of the Defined Benefit Section of the Plan are:

- Reduce the risk of assets failing to meet the long term liabilities of the Plan.
- Protect the Plan's funding level.
- Target an ongoing funding level of 100% on a self-sufficiency liability measure of approximately gilts + 0.5% per annum.
- Harmonise the investment outcomes (and portfolio) with the basis used to value the Plan's liabilities for Company accounting purposes.
- Minimise the expectation for future Company contributions.
- Reduce the expectation of the Plan's funding level falling below 100% on the Company accounting basis.

3.3 The Trustees have considered the objectives above in setting the investment strategy, and will continue to take these into account in making any future changes to the investment portfolio, in consultation with the Company.

Asset allocation

3.4 Willis Towers Watson currently pro-actively advises the Trustees on the investment strategy and manager structure of the investment portfolio. The current policy allocates 30% of the Plan's assets to equity assets, 34.5% to Index-Linked Gilts, 18% to Fixed-Interest Gilts and 17.5% to Corporate bonds.

3.5 The current asset allocation is being reviewed and the Plan is likely to transition to an investment portfolio which appropriately reflects the objectives in 3.2 in due course. Specifically, this portfolio will aim to generate sufficient cashflows, with a high degree of confidence, to meet the Plan's benefit payments as and when they fall due. The portfolio would currently be expected to deliver a best estimate return of circa gilts + 1% per annum, with relatively lower investment risk than the current policy by investing largely in fixed income assets. Other assets that are expected to be considered are intended to generate return via contractual cashflows.

3.6 The Trustees recognise that the revised portfolio may represent a significant shift in asset allocation from the current strategic benchmark, and thus would look to transition the assets gradually. This is expected to be via an intermediate portfolio which utilises the current asset classes, but with a reduced allocation to equity and a greater allocation to bonds. The Trustees consider that the asset allocation policy for the Plan will ensure that the assets of the Plan include suitable investments, that those assets are appropriately diversified, and that there is a reasonable expectation of meeting the Plan's investment objectives.

3.7 The Trustees will not directly hold any Company-related investments, as defined by section 40 of the Pensions Act, except to the extent that they form part of any recognised index being tracked by a passive manager.

Manager Structure

3.8 Within the current portfolio, the Trustees have appointed one passive manager for quoted assets, and one specialist active manager to manage the property portfolio (which is in the process of being wound down).

3.9 The Plan's structure is liable to change, dependent on investment strategy decisions agreed between the Trustees and Willis Towers Watson, and particularly in light of the expected changes to achieve the investment objectives in 3.2. Details of the current manager structure of the Portfolio are included in Appendix A.

Performance Objectives and Investment Return

3.10 The Trustees are not involved in the investment managers' day to day method of operation. However, they will monitor the returns achieved by the managers relative to their benchmark on a regular basis.

3.11 Each manager/portfolio is managed to a specific performance objective that is consistent with the overall objectives of the Plan in aggregate, including the overall risk tolerance of the Trustees.

3.12 The current Plan asset allocation benchmark is 30% in equities and 70% in bonds:

Asset Class	%	Benchmark Index
Global Equities	17.5	FTSE All World Sterling Hedged Index
Global Equities	12.5	30% FTSE All Share Index 60% FTSE All World Developed (ex UK) Sterling Hedged Index 10% MSCI Emerging Markets Index
UK Fixed Interest	18.0	FTSE UK Gilts Over 25 Years Index
UK Index-Linked	11.5	FTSE UK Gilts Index-Linked Over 25 Years Index
UK Index-Linked and Network Rail Bonds	23.0	Not applicable
Global Corporate Bonds	8.5	Barclays Capital Global Corporates 500 Index (GBP Hedged)
UK Corporate Bonds	9.0	iBoxx Sterling Non-Gilts Index
Total	**100.0**	

In addition, the Plan holds a European property allocation, managed by CBRE. This is being wound down, and the Trustees do not intend to increase the allocation to property.

3.13 It is expected that the long term portfolio will be invested in contractual cashflow assets (largely bonds) and the transition to this portfolio will occur gradually. The exact assets that make up this portfolio will need to be considered at the point of implementation.

Rebalancing

3.14 The asset allocation of the Plan will be reviewed as required and at a minimum on an annual basis. The Trustee board will make rebalancing decisions as necessary, and will consider advice provided by the Plan's investment advisors on rebalancing.

3.15 The Trustees consider that their strategy will ensure that the assets of the Plan include suitable investments, that those assets are appropriately diversified and that there is a reasonable expectation of meeting the objectives in 3.2.

Manager Monitoring

3.16 The appointment of investment managers will be reviewed regularly by the Trustees and Willis Towers Watson. The Trustees will monitor the managers' performance, investment process and their compliance with the requirements of the Pensions Act.

3.17 Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the manager will be terminated and replaced. Where the manager's portfolio is segregated however, the Trustees will engage with the manager to encourage alignment. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the manager will also be terminated and replaced.

3.18 The Trustees appoint the investment managers with an expectation of a long-term partnership, which encourages active ownership of the Plan's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

3.19 The Trustees rely on the managers to monitor costs and charges on an ongoing basis as part of their portfolio management activities under MiFID II regulations, including costs associated with portfolio turnover. MiFID II requires investment firms to disclose appropriate information on all costs and related charges for both investment and ancillary services. These disclosures include an ex-ante report which shows aggregated expected costs and charges for proposed investments (and is provided to the Trustees before an investment is made), and an ex-post report which shows aggregated costs and charges that have actually been incurred (and is provided to the Trustees at least annually). The Trustees expect that the managers will aim to keep such costs within reasonable levels.

Responsible investing

3.20 The Trustees understand that sustainability factors (including those related to ESG and climate change) and stewardship may impact the Plan's financial outcomes.

3.21 The Trustees have delegated responsibility for the selection, retention and realisation of investments to the investment managers, as well as the responsibility for the exercising of ownership rights (including voting rights) attaching to the investments. The Trustees recognise that with a largely passive portfolio, the managers take no material decisions on the holdings to be included in the portfolio. However, the Trustees expect the managers to engage with the companies and issuers in which they invest in relation to the financial and non-financial implications of sustainability issues.

3.22 For most of the Plan's investments, the Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. Accordingly, the Trustees' policy is to engage with the managers to understand their policies on sustainability and stewardship, and review these policies regularly to ensure that the managers are carrying out their delegated responsibilities. The Trustees will also review monitoring reports on sustainability and stewardship from the managers (e.g. voting records) with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and ESG impact of underlying holdings on at least an annual basis.

3.23 In addition, the Trustees will seek to incorporate sustainability and stewardship amongst the criteria used when considering the Plan's investment strategy and the selection of investment managers, provided that the inclusion of these does not negatively impact the Plan's long-term investment objectives.

3.24 The Trustees do not take into account non-financial factors as part of their investment considerations.

Additional Voluntary Contributions

3.25 The Trustees provide a facility for members to pay AVCs into the Plan. The assets attributable to these contributions are held separately from the main fund in the form of insurance contracts with a number of Life Assurance Companies.

4 Current Investment Principles Defined Contribution Section

Objectives

4.1 The Defined Contribution Section has been established primarily to pay benefits to members on retiring from the Plan as well as to provide benefits to members' dependants on death before retirement. These benefits are funded, in part, by member contributions. In the Defined Contribution Section, the Company contributes a specified amount on behalf of each member.

4.2 Benefits for active members in the Defined Contribution Section are determined by the value of their individual accounts, which accumulate with the investment returns earned thereon. Deferred members' benefits are also determined by the value of their individual accounts, which accumulate with the investment returns earned thereon.

4.3 The time horizon for members of the Defined Contribution Section depends on their individual circumstances. The time horizon will likely impact the members' individual investment decisions.

4.4 The Trustees recognise that members of the Defined Contribution Section have differing investment needs, that these may change during the course of their working lives and that they may have differing attitudes to risk.

4.5 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. It regards its duty as making available a range of investment options which enables members to tailor their investment strategies to their own needs.

4.6 The Trustees' investment objective is to make available a range of Investment Funds which serve to meet in general the varying investment needs and risk tolerances of the Defined Contribution Section.

4.7 **Self-Select funds**

The following funds are available to the members of the Defined Contribution Section.

- 30:70 Currency Hedged Global Equity Index Fund
- 50:50 Global Equity Index Fund
- Over 5 Year Index-Linked Gilt Index Fund
- Over 15 Year Gilt Index Fund
- Over 15 Year Corporate Bond Index Fund
- Cash Fund

The Trustees will review and may revise from time to time the range of Funds made available to ensure that they remain appropriate. The last review was conducted in December 2013.

4.8 Lifestyle strategies

The Plan offers members three lifestyle strategy options which take the members from a Growth Phase through the Pre-Retirement Phase to their retirement portfolio over a period of either 5 years or 10 years.

4.9 Default Option

The Trustees decided that the default investment option should be a lifestyle strategy as follows:

Growth Phase Allocation

- 30:70 Currency Hedged Global Equity Index Fund : 100%

Pre-Retirement Phase

- Uniform transition to Retirement Allocation over period of 10 years from retirement
- Cash will be introduced 3 years from members' retirement date
- Switching will occur on a quarterly basis

Retirement Allocation

- Over 15 Year Corporate Bond Index Fund : 38%
- Over 15 Year Gilt Index Fund : 37%
- Cash Fund : 25%

5 Risk Management

5.1 The Trustees recognise a number of risks involved in the investment of the assets of the Defined Benefit Section of the Plan:

- *Solvency risk and mismatching risk* – measured through the qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies (through the process of “risk budgeting” and “asset-liability modelling”); managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy.
- *Manager risk* - measured by the expected deviation of the prospective risk and return, as set out in the managers’ objectives, relative to the investment policy; managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager’s investment process.
- *Liquidity risk* - measured by the level of cash flow that may be required by the Plan over a specified period; managed by regular review from the Administrator through estimates of the monthly benefit outgo, who will inform the Trustees of a foreseeable insufficiency of the Plan’s cash balances to meet benefit outgo.
- *Inappropriate investments* - addressed through constraints on the use of derivatives, gearing, specific asset limits and other restrictions within the Investment Management Agreements.
- *Currency risk* - managed by the use of hedged share classes of pooled fund investments
- *Political risk* – measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention; managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.
- *Sponsor risk* – measured by the level of ability and willingness of the sponsor to support the continuation of the Plan and to make good any current or future deficit; managed by assessing the interaction between the Plan and the sponsor’s business.

5.2 The Trustees have considered risk for the Defined Contribution Section of the Plan from a number of perspectives. In particular,

- Risk of capital loss in nominal terms
- Risk of erosion by inflation
- Annuity purchase risk
- Liquidity risk – managed by offering members pooled funds that facilitate the availability of assets to meet benefit outflows.

- Risk of selecting an inappropriate investment. The Trustees remind members to take advice when members select funds in which they wish to invest. The reminder is intended to seek to ensure that members are invested in options appropriate to their needs and circumstances.

5.3 The Trustees continue to monitor these risks.

A Current Investment Manager Structure of the Portfolio

Appendix A

The structure of the Defined Benefit Section at the time of adopting this statement is set out below:

	Target allocation	Asset class	Mandate description
Equities			
BlackRock	17.5%	Equities	Passively managed equities portfolio BlackRock Emerging Markets Index Sub Fund, Aquila Life UK Equity Index Fund, Aquila Life World ex-UK GBP Hedged Equity Fund (in accordance with the FTSE All World Sterling Hedged Index)
BlackRock	12.5%	Equities	Passively managed equities portfolio 10% BlackRock Emerging Markets Index Sub Fund, 30% Aquila Life UK Equity Index Fund, 60% Aquila Life World ex-UK GBP Hedged Equity Fund
Bonds			
BlackRock	52.5%	UK Gilts	Passively managed gilts portfolio 23% allocation to a Buy and Hold portfolio of Index-linked gilts and Network Rail bonds 18.0% allocation to the Aquila Life Over 25 Years UK Gilts Index Fund managed to track the FTSE UK Gilts Over 25 Years Index 11.5% allocation to the Aquila Life Over 25 Years Index-Linked Gilt Index Fund managed to track the FTSE UK Over 25 Years Index-Linked Gilts Index
BlackRock	9.0%	Global Corporate Bonds	Global Screen Corporate Bond Fund measured against the Barclays Capital Global Corporate 500 Index The Fund seeks to maximise total return, consistent with preservation of capital and prudent investment management.
BlackRock	8.5%	UK Corporate Bonds	Passively managed gilts portfolio iBoxx Sterling Non-Gilts Index
Property			
CBRE	N/A	Property	Semi open-ended Europe ex-UK property fund of funds, with a finite life of 10 years. The Plan is targeting a return of 8-10% pa net of fees.

Appendix B

The Plan provides the following funds to its Defined Contribution Members:

	Mandate description
Equities	
Aquila Life (30:70) Currency Hedged Global Equity Index Fund	Passively managed equities portfolio 10% MSCI Emerging Markets Index, 30% FTSE All Share Index, 60% FTSE AW Developed ex-UK Currency Hedged Index
Aquila Life (50:50) Global Equity Index Fund	Passively managed equities portfolio 50% FTSE All Share Index, 16.7% FTSE AW Developed Europe ex UK Index 16.7% FTSE AW USA Index 8.3% FTSE AW Japan Index 8.3% FTSE AW Developed Asia Pacific ex-Japan Index
Bonds	
Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund	Passively managed gilts portfolio FTSE Actuaries Government Securities Index-Linked Over 5 Years Index
Aquila Life Over 15 Years Gilt Index Fund	Passively managed gilts portfolio FTSE Actuaries UK Gilts Over 15 Years Index.
Aquila Life Over 15 Year Corporate Bond Index Fund	Passively managed gilts portfolio iBoxx Over 15 Years Sterling Non-Gilts Index
Cash	
Aquila Life Cash Fund	The Fund invests in short-term Sterling instruments and aims for competitive returns on investments whilst maintaining capital security. The objective is to outperform 7 day LIBID, net of fees.