Hewlett-Packard Limited Retirement Benefits Plan

Statement of Investment Principles

1. **Introduction**

1.1 This is the Statement of Investment Principles made by the Hewlett Packard Enterprise UK Pension Trustee Limited (the "Trustee") in relation to the Hewlett-Packard Limited Retirement Benefits Plan (the "Plan") in accordance with section 35 of the Pensions Act 1995 ("the Act"), and subsequent legislation. It is subject to review by the Trustee at least once a year and more frequently as required, and in particular following formal actuarial valuations and investment strategy reviews.

The Statement was most recently reviewed in July 2020.

The Plan comprises two Sections – Hewlett-Packard and Digital.

1.2 In preparing this Statement the Trustee has consulted with the principal employer to the Plan (Hewlett-Packard Limited) and has taken written advice from the Plan's Investment Consultant in respect of the Hewlett-Packard and Digital Sections.

2. **Objective**

2.1 The primary objective of the Plan is to provide, on a defined benefits basis, pension and lump sum benefits for members on their retirement, or benefits on death, before or after retirement, for their dependants.

2.2 The Trustee has agreed funding approaches with Hewlett-Packard Limited for each of the two Sections referred to above.

3. **Investment Strategy**

3.1 Having taken advice from the Plan's Investment Consultant, the Trustee has agreed a suitable strategic asset allocation benchmark for each Section of the Plan. The benchmark determined for each Section is consistent with the Trustee's views on the appropriate balance between aiming to achieve the desired level of return, risk management and funding level volatility, liquidity of the overall assets and cashflow management. The respective strategic benchmarks have been translated into benchmarks for the individual managers which are consistent with the Plan's overall strategy.

3.2 The investment strategy takes account of the maturity profile of each Section (in terms of the relative proportions of liabilities in respect of pensioners, deferred pensioners and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used on an ongoing and on other appropriate bases). The Trustee monitors strategy relative to the agreed asset allocation benchmarks. It is intended that the investment strategy will be reviewed at least every three years, following actuarial valuations, and will normally be reviewed annually. Written advice will be sought as appropriate. In addition, the Trustee monitors the performance of the investment managers on a regular basis, taking independent advice as required.

The long-term investment strategy is shown in the table below:

Asset class	Target allocation
Growth portfolio	10.0%
Equities	10.0%
Protection portfolio	90.0%
Investment Grade Corporate Bonds	7.5%
Multi-Asset Credit	20.0%
Illiquid Secure Income	10.0%
Senior Private Debt	5.0%
Secured Finance	10.0%
Liability Driven Investment	37.5%

3.3 To achieve their objectives, the Trustee has agreed the following:

i. **Choosing Investments**

The Trustee has appointed a number of investment managers (the "Managers") to manage the assets of the Plan. All the Managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business and have been appointed in accordance with the requirements of Section 47 of the Pensions Act 1995. Managers are required to have regard to the need for diversification of investments, insofar as appropriate to the circumstances of the Plan.

The investments of the Hewlett-Packard and Digital Sections are managed, independently of each other, by a number of investment managers. After seeking appropriate investment advice, the Trustee has given each manager specific directions as to asset allocation but the choice of individual investments has been delegated to the managers, subject to their respective benchmarks and asset guidelines. In appointing several investment managers, the Trustee has considered the risk of underperformance of any single investment manager.

In adopting the above approaches, the Trustee is satisfied that the investments of the Plan are suitably diversified as regards asset class, geographic spread and the number of stocks held.

ii. **Kinds of investment to be held**

The Plan may invest in a range of Growth assets and Protection assets. The primary purpose of the Growth assets is to achieve returns in excess of the change in the value of the liabilities, over the long term. Within the Protection assets, there are two broad types of assets held: assets that are designed to broadly mirror the change in the value of the liabilities due to changes in long-term interest rates and inflation expectations; and assets where the return driver is primarily income focused. The combination of these assets is designed to help achieve the return requirements of the Plan, control the volatility of the funding position and provide cashflow income to help ensure pension benefits are met. The Trustee considers all these classes of investment to be suitable in the circumstances of the Plan.

iii. **Balance between different kinds of investments**

Within the design of the overall investment strategy, the Managers hold a mix of investments which reflects their views, relative to their respective benchmarks. Within any major market, a Manager is expected to maintain a diversified portfolio of holdings through direct investment or pooled vehicles.

When selecting and appointing Managers the Trustee and the Investment Consultant consider the proposed choice of asset class holdings and the desire to maintain a diversified portfolio as a contributing factor. Further, the Investment Consultant regularly reviews the range of investments held by the respective Managers to ensure they remain appropriately balanced in the circumstances of the Plan and given the level of investment risk that is appropriate at the time.

iv. **Investment risk**

The Trustee regularly monitors the investment risks the Plan is exposed to. There are clear strategic risk and return objectives for each investment mandate. The performance of individual investment mandates and the aggregate portfolio is assessed relative to these objectives on a regular basis. As appropriate, the Trustee will take action to ensure that the individual investment mandates and aggregate portfolio remain appropriate given the Plan's overall objectives.

In setting return-oriented objectives for the defined benefit assets, the Trustee recognises that the Plan is exposed to equity market risk, inflation risk, interest rate risk, currency risk, credit risk, liquidity risk and manager risk. These risks introduce a degree of volatility which may mean that, in the short term, the actual return could be significantly above or below the long-term target. While it is impossible to eliminate risk without making a significant sacrifice to expected excess return, the Trustee intends to mitigate risk as far as possible by:

- Maintaining a well diversified portfolio of assets, both within each asset class and by Manager;
- Seeking to hedge a majority of the Plan's interest rate and inflation risks.

v. **Expected return on investments**

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed in the funding approach adopted for the Plan.

vi. **Realisation of investments**

The Trustee regularly assesses the liquidity profile of the assets to ensure that the overall position is appropriate for the Plan's needs.

vii. **Financially material considerations and Stewardship**

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a 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 Trustee also recognises that long-term sustainability issues, particularly, but not limited to, climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given the Managers full discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, including engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest and risks, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the Managers to exercise ownership rights and undertake monitoring and engagement in line with the Managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries.

The Trustee considers how ESG, climate change and stewardship are integrated within investment processes in appointing new Managers and monitoring existing Managers. The Trustee considers the ESG ratings provided by the Investment Consultant and how each investment manager embeds ESG factors into its investment processes and its implementation decisions to assess the potential impact on financial performance and in deciding on the selection and realisation of investments over the time horizon that is needed in relation to the funding needs of the Plan.

Managers will also be expected to report on their own ESG policies and voting activity (as relevant) as and when requested by the Trustee. Monitoring by the Trustee is undertaken on a regular basis and is documented at least annually.

The Trustee seeks to appoint Managers that have strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code, and from time to time the Trustee reviews how these are implemented in practice.

viii. **Investment Restrictions**

The Trustee has not set any investment restrictions on the appointed Managers in relation to particular products or activities, but may consider this in future.

ix. **Additional Voluntary Contributions ("AVCs")**

The Trustee gives members the opportunity to invest in a range of pooled funds and insurance policies at the members' discretion.

x. **Non-Financial matters**

The Trustee does not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

3.4 Investment Manager Appointment, Engagement and Monitoring

i. Aligning Manager Appointments with Investment Strategy

The Managers are appointed by the Trustee based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustee utilises the Investment Consultant's forward-looking manager research ratings in decisions around manager appointments. These ratings are based on the Investment Consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management. The Trustee will consider how ESG and stewardship are integrated into the investment process as well as ensuring fees are competitive within the asset class.

If the investment objective for a particular Manager's fund changes, the Trustee will review the fund appointment to ensure that it remains appropriate and consistent with the wider Trustee's investment objectives.

The Managers are remunerated based on an agreed percentage of assets basis, with some also having in place performance related fee structure.

The majority of the Plan's investments are made through pooled investment vehicles. Where this applies, the Trustee accepts that it has no ability to specify the risk profile and return targets of the Manager. Such issues are taken into consideration when selecting and monitoring the Managers to align with the overall investment strategy requirements.

Some of the Plan's investments are managed on a segregated basis, and therefore the Trustee has specified criteria in the investment manager agreements for the Manager to be in line with the Trustee's specific investment requirements.

ii. Incentivising Managers to Consider Long-Term Financial and Non-financial Performance

The Trustee also considers the Investment Consultant's assessment of how each Manager embeds ESG into its investment process and how the Manager's responsible investment philosophy aligns with the Trustee's beliefs around responsible investment. This includes the Managers' policy on voting and engagement (where relevant) The Trustee will use this assessment in decisions around selection, retention and realisation of Manager appointments where applicable.

The Managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then they will consider replacing the Manager.

iii. **Evaluating Investment Manager Performance and Remuneration**

The Trustee receives investment performance reports from the Managers and the Investment Consultant on a quarterly basis, which present performance information over various time periods. The Trustee reviews absolute performance and in many cases relative performance, either against a suitable index used as a benchmark (where relevant) and/or against the Manager's stated performance target (over the relevant time period). The Trustee may also evaluate a Manager's performance using other metrics based on the nature of the asset class (such as the number of defaults and downgrades in credit portfolios). The Trustee's focus is primarily on long-term performance but short-term performance is also reviewed on a regular basis.

There are active mandates with performance related fees, which have hurdle rate structures in place to avoid the Trustee paying additional fees during periods of long term underperformance.

iv. **Portfolio Turnover Costs**

The Trustee monitors the portfolio turnover costs of the Plan's assets on an annual basis. The Trustee will engage with a Manager if portfolio turnover is higher than expected. This is 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. Manager performance is assessed net of all fees and costs, including transaction costs, and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

v. **Manager Turnover**

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis.

For open-ended funds, the Trustee will retain an investment manager unless there is a change to the overall investment strategy that no longer requires exposure to that asset class or Manager, or the Manager appointment has been reviewed and the Trustee is no longer confident that the Manager can achieve their performance objective. For portfolios managed on a segregated basis, the Trustee may terminate a Manager's appointment by providing notice as detailed in the Investment Management Agreement.

For funds that have a fixed lifetime and are illiquid, the Plan is invested in a Manager's fund for the lifetime of the fund. At the time of appointment, the Managers provide an indication of the expected investment duration of their fund and have the discretion to extend the lifetime of the fund in line with the fund documentation. In order to maintain a strategic allocation to the relevant asset class, the Trustee may choose to stay with a Manager in a new fund for that asset class or appoint a different Manager.

4. Compliance with this Statement

4.1 The Trustee, the Managers and the Investment Consultant all have duties to perform to ensure compliance with this Statement. The duties of these parties to ensure compliance with this Statement are as follows:

- **The Trustee** will review this Statement every year on the advice of the Investment Consultant and will record compliance with it annually.
- **The Managers** will prepare regular reports to the Trustee including:
  - a valuation of all investments held for the Plan including a record of all transactions undertaken,
  - performance of the Plan's assets against their respective benchmarks,
  - a review of actions undertaken on behalf of the Plan regarding areas such as, but not limited to, corporate governance, socially responsible investment and disclosure of transaction costs.
- **The Investment Consultant** will provide appropriate advice to allow the Trustee to review and update this Statement annually (or more frequently, if required).

Signed for and on behalf of Hewlett Packard Enterprise UK Pension Trustee Limited

Trustee Director

Trustee Director

20.07.2020

Date Agreed by the Trustee