



# AXA UK GROUP PENSION SCHEME

## STATEMENT OF INVESTMENT PRINCIPLES (SIP) | DEFINED CONTRIBUTION (DC) SECTION – SEPTEMBER 2020

### INTRODUCTION

The law requires the Trustee to produce formal “Statement of Investment Principles” for the Scheme’s default arrangement and its other investment options. These Statements set out what the Trustee aims to achieve with the investment options and their investment policies which guide how members’ money is invested.

This document is a compendium of the Statements of Investment Principles for the AXA UK Group Pension Scheme DC Section (the “Scheme”). These Statements must cover a number of technical points to comply with legislation as well as meet the expectations of the Pensions Regulator and needs of the Scheme’s Auditors which, as far as possible, are shown separately in “for the record” boxes.

The Trustee will publish the Statements of Investment Principles online.

### STATEMENTS OF INVESTMENT PRINCIPLES

The Trustee’s Statements of Investment Principles for the DC Section contained in this document include the:

- 1 Statement of the aims and objectives for the default arrangement\*;
- 2 Statement of the aims and objectives for investment options outside the default arrangement\*; and
- 3 Statement of investment beliefs, risks and policies\*\*.

The Statement of Investment Principles for the DC Section of the Scheme\*\* comprises items 1, 2 and 3. The Statement of Investment Principles for the Scheme’s default arrangement\*\*\* comprises items 1 and 3.

### APPENDICES

- A. Investment implementation for the default arrangement;
- B. Investment implementation for the investment options outside the default arrangement;
- C. Summary of the approach to investment governance; and
- D. Summary of the Scheme’s service providers.

## FOR THE RECORD

\* In accordance with Regulation 2A(1) of the Occupational Pension Schemes (Investment) Regulations 2005.

\*\* In accordance with Regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 as modified by subsequent Regulations and section 35 of the 1995 Act.

\*\*\* In accordance with Regulation 2A(1) of the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustee has taken proper written advice and consulted the Employer in the preparation of these Statements of investment Principles. These Statements will be reviewed at least every three years or more frequently as required by the Regulations.

## 1. STATEMENT OF THE AIMS AND OBJECTIVES FOR THE DEFAULT ARRANGEMENT

### REASONS FOR THE DEFAULT ARRANGEMENT

The Trustee has decided that the Scheme should have a default investment arrangement because:

- The Scheme is a qualifying scheme for auto-enrolment purposes and so must have a default arrangement;
- It should be easy to become a member of the Scheme and start building retirement benefits without the need to make any investment decisions; and
- A majority of the Scheme's members are expected to have broadly similar investment needs.

### CHOOSING THE DEFAULT ARRANGEMENT

The Trustee believes that understanding the Scheme's membership is essential to designing and maintaining a default arrangement which meets the needs of the majority of members.

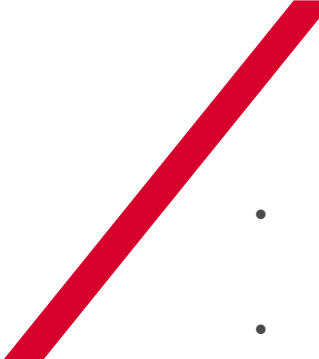
The Trustee has taken into account a number of aspects of the Scheme's membership including:

- The members' age and salary profile;
- Members' projected personal account sizes at retirement;
- Contribution levels; and
- The likely return on investment, after the deduction of charges payable on the funds, used by the Scheme's default strategy - the Drawdown Lifecycle Strategy.

### OBJECTIVES FOR THE DEFAULT ARRANGEMENT

The main objective of the default arrangement is to provide good member outcomes at retirement. The Trustee also believes that it is in the best interests of the majority of members to offer a default which:

- Manages the principal investment risks members face during their membership of the Scheme;

- 
- Maximises investment returns relative to inflation while taking an appropriate level of risk during membership of the Scheme for the majority of members who do not make investment choices;
  - Enables investments to be readily realisable subject to market conditions;
  - Considers Environmental, Social and Governance (ESG) issues; and
  - Reflects members' likely benefit choices at retirement.

### THE DEFAULT ARRANGEMENT

The default arrangement is therefore a “lifestyle strategy”, which:

- Gradually moves investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the Scheme; and
- Targets members who are expected to use Flexible Access Income Drawdown during their retirement.

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee’s objectives for the default arrangement. The expected investment returns, approach to managing investment risks including financially material considerations such as climate change and details of the Trustee’s policies in relation to its investments and its arrangements with assets managers are described in Section 3. Full details of the current default arrangement are given in the document in Appendix A “Investment implementation for the default arrangement”.

## 2. STATEMENT OF THE AIMS AND OBJECTIVES FOR INVESTMENT OPTIONS OUTSIDE THE DEFAULT ARRANGEMENT

### REASONS FOR THE INVESTMENT OPTIONS

In addition to the default arrangement, the Scheme offers members a choice of investment options because:

- While the default arrangement is intended to meet the needs of a majority of the Scheme’s members, it may not meet the needs of all members, Gradually moves investments between different funds to manage the levels of investment returns and principal investment risks at each stage of membership of the Scheme; and
- Attitudes to investment risks and the need for investment returns will vary from member to member and will also vary for each member over time and, in particular, as they approach retirement;
- Members have differing investment needs and these needs change during their working lives; and
- Some members will want to be more closely involved in choosing where their contributions are invested

## CHOOSING THE INVESTMENT OPTIONS

### MEMBERSHIP ANALYSIS

The Trustee believes that understanding the Scheme's membership is important to maintaining an appropriate range of investment options and have taken into account a number of aspects including:

- The members' age and salary profile.
- The likely sizes of members' pension funds at retirement;
- The degree to which members are likely to take an interest in where their contributions are invested; and
- The number of members who are likely to want responsible, ethical or faith-based investment.

### COSTS OF INVESTMENT OPTIONS

The investment costs are borne by members and so a balance needs to be struck between choice and costs.

### OBJECTIVES FOR THE INVESTMENT OPTIONS

The Scheme offers members a choice of investment options as an alternative to the default arrangement.

### ALTERNATIVE LIFESTYLE OPTIONS

The main objective of the alternative "lifestyle option", the Annuity Lifecycle Strategy, is to give good member outcomes.

The Trustee believes that it is in the best interests of members in the alternative lifestyle option to:

- Manage the principal investment risks members' face during their membership of the Scheme;
- Maximise investment returns relative to inflation while taking an appropriate level of risk during membership of the Scheme for members who do not otherwise make investment choices; and
- Give further choice for members who feel that the Scheme's default arrangement is not appropriate to their needs, but do not otherwise want to be involved in deciding where their contributions are invested.

The alternative lifestyle option gives members a choice compared to the default arrangement of:

- Slightly lower levels of investment risk and expected return; and
- Targeting buying an annuity at retirement.

### SELF-SELECT / FREECHOICE FUNDS

The objectives of the self-select fund range, also known as the 'Freechoice' fund range, are to:

- Provide a choice of individual funds for members who want to be more closely involved in choosing where their pension funds are invested;
- Complement the objectives of the Default Arrangement and the alternative lifestyle option;
- Provide a broader choice of levels of investment risk and return;

- Provide a broader choice of investment approaches including responsible investing, ethical and faith-based funds;
- Help members more closely tailor how their pension funds are invested to their personal needs and attitude to risk;
- Help members more closely tailor how their pension funds are invested to reflect the benefits they intend to take at retirement.

Nevertheless, the self-select fund range cannot be expected to cover all the investment needs of all members.

## RISK AND RETURN

The expected levels of investment returns (after the deduction of charges) and risks for the funds used are consistent with the Trustee's objectives for these investment options. The expected investment returns and approach to managing investment risks including financially material considerations such as climate change are described in Section 3.

Full details of the current investment options are provided in the documents "Investment implementation for investment options outside the default arrangement" and "Investment implementation for the default arrangement."

## 3. STATEMENT OF INVESTMENT BELIEFS, RISKS & POLICIES

### INTRODUCTION

This Statement sets out the investment beliefs and policies which guide the Trustee's decision making.

#### FOR THE RECORD

This Statement of investment beliefs, risks and policies should be read in conjunction with the Statements of the aims and objectives for both the default arrangement and the investment options outside the default arrangement. Collectively, these respectively form the Statements of Investment Principles for the Scheme and the default arrangement.

This Statement of investment beliefs has been prepared in accordance with the Occupational Pension Scheme (Investment) Regulations 2005.

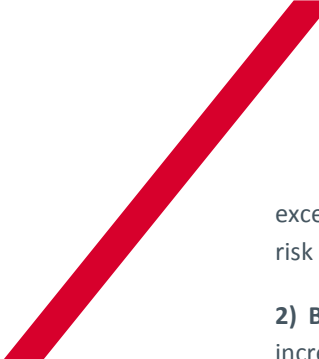
## RISKS

### PRINCIPAL INVESTMENT RISKS

The Trustee believes that the three principal investment risks most members will face are:

- 1) **Inflation risk** – investment returns over members' working lives may not keep pace with inflation and, as a result, do not produce adequate retirement benefits.

Further from retirement, this risk should be countered by funds investing in equities and other growth orientated assets which are expected to produce returns well in



excess of inflation over the longer term. Approaching retirement, the impact of this risk needs to be balanced against the other main risks members face.

**2) Benefit conversion risk** – investment conditions just prior to retirement may increase the cost of turning members' fund values into retirement benefits.

For members taking cash at retirement, funds investing in cash deposits and other short-term interest-bearing investments provide a high degree of (but not complete) capital security. Funds investing in a mix of different assets are expected to be broadly suitable for members planning income drawdown during retirement. For members buying an annuity at retirement, the value of funds investing in longer-dated bonds may be expected to broadly follow changes in annuity rates caused by long-term interest rates.

**3) Volatility/Market risk** – falls in fund values prior to retirement lead to a reduction in retirement benefits.

Funds investing in bonds or a mix of assets or investment techniques intended to manage short-term risks may be expected to be subject to lower levels of short-term fluctuations in values - although there may be occasions when this does not hold good.

#### OTHER INVESTMENT RISKS

The Trustee believes that other investment risks members may face include:

**Active management risk** – a fund manager's selection of holdings may not lead to investment returns in line with the fund's objectives and investment markets generally.

**Currency risk** – changes in exchange rates will impact the values of investments outside the UK when they are being bought or sold.

**Interest rate risk** – the value of funds which invest in bonds will be affected by changes in interest rates.


**Default risk** – for bond funds (where money is lent in return for the payment of interest), the company or government borrowing money fails to pay the interest due or repay the loan.

**Liquidity risk** – funds which invest in assets which cannot be easily bought or sold (such as property) may at times not be able to accept new investments or disinvestments of existing holdings.

**Counterparty risk** – the financial institutions holding a fund's assets may get into financial difficulties leading to a reduction in a fund's value.

**Market risks** - Shifts in market sentiment (for example, in response to economic news or geopolitical events) or momentum in general market trading can lead to widespread changes and/or volatility in asset values over the short-term

This can include short-term changes in the normally expected correlations of the behaviour of risks and returns seen between different asset classes, when standard approaches to mitigating risks such as diversification are temporarily ineffective.



**Factor based investing** – equity investments may show several factors (supported by academic research) that may be expected to deliver stronger returns over the longer-term, but which may show increased risks (including timing) in the shorter-term.

**Environmental, Social and Governance (ESG) risks** – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations. **Climate risk** - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including, but not limited to: policy change, physical impacts and the expected transition to a low-carbon economy.

**Legislative/Regulatory** - Changes in government policy or taxation may have a long-term positive or negative impact on certain sectors of a country's economy or one country relative to its neighbours over the medium to longer-term. Changes in Regulations can also affect the operational costs, tax efficiency and security of one investment vehicle relative to other vehicles over the shorter-term.

## MEASURING RISKS

The Trustee has developed and maintain a framework for measuring the investment risks. This has two components:

- Quarterly monitoring of the investment funds covering short and medium-term performance attribution.
- Periodic reviews of the investment strategy.

## MANAGING RISKS

The Trustee has developed and maintain a framework for assessing the impact of all investment risks on long-term investment returns.

### PRINCIPAL INVESTMENT RISKS

The lifestyle options manage the three main investment risks as members grow older by automatically switching from funds which are expected to give long-term growth relative to inflation into funds whose values should fluctuate less in the short-term relative to the benefits members are expected to take at retirement.


The self-select fund range provides members with a choice of funds with differing risk and return characteristics which are expected to meet the investment needs of the majority of members.

### OTHER INVESTMENT RISKS

The Trustee manages the other investment risks as part of the process for selecting and ongoing monitoring of the funds used by the Scheme.

The funds used give a good spread of investments which will help manage risks associated with market conditions, fund manager actions and default.

At this time, the Trustee has not made explicit allowance for climate change within the development or implementation of its investment strategy. The Trustee further recognises that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others. The Trustee will consider such factors in the



development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will engage with their investment managers to ensure they take such considerations into account within their decision making. The Trustee does discuss the potential impact of climate risks with its adviser and managers on a periodic basis and will monitor developments in this area. In relation to its investment strategy, the Trustee monitors other risks which it believes to be financially material including economic risk, market risk and regulatory risk on a regular basis and discusses issues relating to these risks with its adviser and managers on a periodic basis. The Trustee monitors governance risk and will report on the managers' practices in their annual Implementation Statement.

#### **TIME HORIZON**

The Trustee monitors the age profile of the Scheme's membership to arrive at an appropriate investment horizon for different groups of members when considering all investment and financially material risks. The Scheme is open to new entrants and as a result, investment risks need to be considered over the duration of their time with the Scheme.

#### **FINANCIALLY MATERIAL CONSIDERATIONS**

The Trustee recognises that the consideration of financially material considerations, including ESG factors, climate risk, economic risk, market risk and regulatory risk are relevant to the development, selection and monitoring of the Scheme's investment options.

#### **IMPLEMENTATION**

The Scheme uses standard pooled funds offered by investment platform providers and fund managers. This gives access to a range of funds while keeping down costs to members but means that the Trustee cannot adopt an approach to managing financially material considerations specific to the Scheme. The Trustee nevertheless seek to manage financially material considerations to protect long-term returns by:

- Choosing fund managers who have clearly articulated policies for managing financially material considerations including climate change;
- Considering the extent to which ESG issues including climate risk, where relevant, are integrated into the fund managers' investment processes;
- For actively managed funds (where the fund manager decides where to invest), expect the fund managers to take financially material considerations into account when selecting which companies and markets to invest in;
- For passively managed funds, the Trustee recognises that the funds' objectives are to deliver returns in line with its benchmark (which may or may not take into account ESG factors), which the Trustee believes will deliver appropriate risk adjusted returns.
- For all funds, the Trustee expects fund managers to engage with companies in which the fund invests to encourage business strategies which should improve or protect the value of those investments; and



- Preferring fund managers who are signatories to the Financial Reporting Council's Stewardship Code in the UK and the United Nations supported Principles for Responsible Investment.

### EXPECTED RETURNS ON INVESTMENTS

The Trustee believes that it is important to balance investment risks with the likely long-term returns from different types of assets used in funds (taking the funds' costs and charges into account).

Asset class	Expected long-term investment returns relative to inflation	Expected shorter-term volatility in fund values
Equities (i.e. company shares)	Strong return relative to inflation	Most volatile in the short-term
Property (e.g. offices, shops and warehouses)	Positive, but lower than equities	Lower than equities
Corporate Bonds (i.e. loan stocks issued by companies)	Positive, but lower than equities and property	Lower than equities or property
Fixed Interest Government Bonds (e.g. UK Gilts)	Positive, but lower than equities, property or corporate bonds	Lower than equities, property or corporate bonds
Index-Linked Government Bonds (e.g. UK Index-Linked Gilts)	In line with inflation	Lower than equities, property or corporate bonds
Cash (and other short-term interest-bearing investments)	Return may not keep pace with inflation	Minimal with high degree (but not complete) of capital security

**Long-Dated Bonds** (e.g. UK Gilts and Corporate Bonds with a duration of 15 years or more) – should give fund values which move broadly in line with the financial factors influencing annuity rates.

**Multi-asset funds** (i.e. investing in a varying mix of asset classes) - should deliver positive returns relative to inflation over the longer-term, with lower short-term volatility than equities.

**Derivatives** (e.g. currency hedging) - typically to reduce shorter-term investment risks or to facilitate changing where funds are invested, should help achieve a fund's expected levels of risk and return.

**Market beta** (i.e. funds investing in assets with certain characteristics) – the strategy of these funds is intended to give a better return over the long-term than the broader market for the type of assets involved (e.g. equities).

**Illiquid assets** (e.g. infrastructure, forestry, private equity and private debt) – seek to deliver better risk adjusted returns over the long or very long term compared to similar and more liquid assets, but may give poor returns if they are sold in the short to medium term.

**Commodities** – are often speculative investments where values are sensitive to demand, but may provide a degree of inflation-proofing and diversification.

## INVESTMENT BELIEFS

The Trustee's investment decisions are made in the context of its investment beliefs that:

- Members are in general long-term investors (who plan for future outcomes which are 10 or more years in the future);
- Managing the principal investment risks is the most important driver of good long-term member outcomes;
- As the Scheme invests for members over the long-term, financially material considerations including the impact of climate change will have a bearing on funds' expected levels of risk and return;
- Investment markets may not always behave in line with long-term expectations during the shorter-term;
- Taking investment risk is usually rewarded in the long term;
- Investment risks can be reduced by spreading investments both within and across asset classes;
- Actively managed funds, where the manager chooses where to invest, may not always deliver the expected investment returns in the shorter-term;
- Passively managed funds, whose returns are intended to track a market index, may produce investment returns more efficiently than actively managed funds in some markets;
- Charges and costs (levied by fund managers and platform providers) can have a material effect on net returns.
- As the Scheme invests for the long-term, ESG factors will have a bearing on the funds' expected levels of risk and return;
- Charges and costs (levied by fund managers and platform providers) can have a material effect on net return;
- ESG issues will be financially material to risk-adjusted returns over the long term;
- Climate change is a material financial risk, particularly to younger members; and
- Active stewardship can support positive engagement with members.


## TYPES OF FUNDS USED

### DELEGATION OF INVESTMENT DECISIONS

The Scheme uses funds provided through an investment platform. This investment platform in turn invests its funds in funds provided by a selection of fund managers where investments are pooled with other investors. This enables the Scheme to invest in a range of funds giving a good spread of investments in a cost-effective manner. It means that the Trustee has delegated day to day investment decisions including the management of financially material considerations to the fund managers.

### SELECTION OF FUNDS

The Trustee will invest in funds on the provider's platform which in turn invest in the investment managers' pooled funds. The objectives of the funds and the policies of the investment managers will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Scheme.



The Trustee's choice of funds, and hence choice of approaches to aspects such as responsible investment and shareholder engagement, are constrained by the choice of funds available on the provider's platform. While the Trustee will endeavour as far as possible to select a platform provider and funds on that provider's platform which are consistent with the Scheme's investment objectives and the Trustee's investment beliefs, this needs to be balanced against the wider benefits of access to the other funds on the platform and the other services from the platform provider as well as taking into consideration the costs of change to the Scheme and its members.

The Trustee will seek to engage with the platform provider to obtain funds which meet the Trustee's investment beliefs, and are expected to improve outcomes for members, but this is subject to being commercially viable for the provider and consistent with the charge cap for the default arrangement. The Trustee expects the provider to encourage the investment managers to adopt appropriate practices for responsible investment and shareholder engagement.

The Trustee will periodically review the choice of platform provider, at which time the suitability of the provider's fund range and effectiveness of its governance of the investment managers on its platform will be key criteria.

## MANAGER INCENTIVES

The basis of remuneration of the investment managers by the platform provider may be subject to commercial confidentiality, however, the Trustee will seek transparency of all costs and charges borne by members.


Nevertheless, the Trustee expects that it will be in the interests of both the platform provider and the investment managers on the provider's platform to produce growth in asset values in line with the funds' investment objectives.

For passively managed funds this should be within an acceptable margin of the index the fund tracks. For actively managed funds the investment return should be commensurate with the level of investment risk implied by the fund's objectives

When selecting funds, the Trustee will ask their investment advisor to consider the investment managers' remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment managers will act in line with the interests of the Scheme's members.

In accordance with the 2015 Regulations, the Trustee conducts an annual Value for Members assessment and will act should the provider be found to be giving poor value. In addition, in accordance with guidance from the Pensions Regulator the Trustee will periodically review the Scheme's choice of provider to ensure their charges and services remain competitive. The Trustee believes that this is one of the most effective ways of incentivising the provider to deliver Value for Members, of which investment management charges and investment performance are key considerations.

The Trustee also undertakes a review at least every three years in which the appropriateness of the investment options at which time the suitability of the Scheme's investment management arrangements are also considered.



The Trustee monitors the investment managers against a series of metrics on a quarterly basis over a long-term time horizon including:

- Performance of their funds' respective benchmarks/targets;
- Relative tracking error where appropriate;
- The exercise of stewardship responsibilities (including engagement with issuers); and
- The management of risks.

The platform provider or investment managers are expected to provide explanations for any significant divergence from a fund's objectives. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed.

## PORTFOLIO TURNOVER

The Trustee does not expect investment managers to take excessive short-term risk and will monitor the investment manager's performance against the benchmarks and objectives on a short, medium and long terms basis.

For passively managed funds the turnover of holdings is driven by changes in the index a fund seeks to track and hence is outside the control of the investment manager.


When selecting actively managed funds, the Trustee will consider, with the help of their investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask the investment platform provider or investment managers on the platform to report on a periodic basis on the underlying assets held within fund with details of any transactions and turnover costs incurred over the Scheme's reporting year.

Where a fund has significantly under or outperformed its benchmark, the Trustee will seek to ascertain where necessary whether higher or lower than normal turnover has been a contributory factor. The Trustee will challenge the platform provider and/or investment managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

## PORTFOLIO DURATION

The Trustee recognises the long-term nature of defined contribution pension investments and chooses funds which are expected to deliver sustainable returns over the Scheme members' investment horizon.



The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the objectives for the related investment option.

The Trustee expects that each fund will be used for at least three years, this being the period over which performance of the fund can be appropriately evaluated and the costs of change amortised, although all funds are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

#### SECURITY OF ASSETS

The funds are provided through a policy of insurance issued to the Trustee by the platform provider. As a result, the value of the funds may be affected in the event of the provider getting into financial difficulties.

The underlying funds used by the provider's platform are accessed through reinsurance agreements and unit purchase agreements. In the event of a fund manager getting into financial difficulties, the values in these underlying funds will depend upon the nature of the contract with the platform provider and the fund vehicles used by the fund managers' funds.

#### REALISATION OF INVESTMENTS


The Trustee expects that the investment platform provider and the fund managers will normally be able to sell the funds within a reasonable timescale. There may, however, be occasions where the investment platform or fund managers need to impose restrictions on the timing of sales and purchases of funds (most notably for funds investing in property) in some market conditions to protect the interests of all investors in that fund.

Nevertheless, the Trustee recognises that most members' pension funds have a long investment timeframe, during which assets which are less easily traded (such as property or infrastructure) can be managed to deliver good long-term returns while avoiding the impact of liquidity issues at retirement.

#### CREATION OF ALTERNATIVE / INADVERTENT / TEMPORARY DEFAULT ARRANGEMENTS

The Trustee recognises that it is important that members' contributions can be invested promptly in selected investment funds, and that these can be sold promptly for example when members wish to change where they are invested, transfer to another arrangement or if they wish to draw on their pension pot. The Trustee manages this risk by selecting pooled investment funds which can be dealt on a daily basis. The platform provider is responsible for monitoring the ability for members to invest and disinvest promptly and is expected to notify the Trustee if a situation develops whereby there is any restriction on the ability for members to do so. For example, this situation could occur in the event of significant economic uncertainty impacting on the ability for fund managers to value the underlying assets.

In some circumstances this may result in monies being invested in or transferred to an alternative fund without a member's consent (such as fund suspensions) which may result in funds other than the default option being deemed as "default" investment arrangements for the purposes of the Occupational Pension Schemes (Charges and



Governance) Regulations 2015. A default arrangement is protected by the charge cap so that member charges for that arrangement do not exceed 0.75% p.a. Where a fund becomes a “default arrangement” for these purposes, the Trustee will apply the principles set out in this SIP in respect of the default option to the extent they are relevant to the fund. Further details are out in Appendix 1 in respect of any funds which have become “default arrangement” for these purposes.

## BALANCE OF INVESTMENTS

The Trustee reviews the nature of the Scheme’s investment options on a regular basis, with particular reference to suitability and diversification. The Trustee considers written advice from a suitably qualified person when determining the appropriateness of each investment manager and fund for the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

Overall, the Trustee believes that the Scheme’s investment options:

- Provide a balance of investments; and
- Are appropriate for managing the risks typically faced by members.

This is because the investment options cover a wide range of asset types with different expected risk and return characteristics, including:

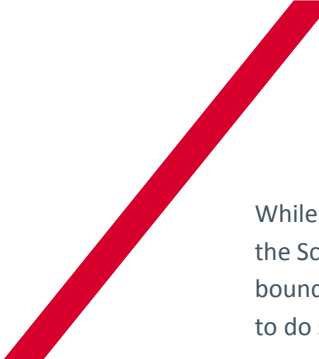
- Assets with high expected long-term growth and high expected volatility (such as equities);
- Assets which are actively managed which have the potential to outperform their benchmarks, but may also underperform;
- Assets which are inflation-linked (such as inflation-linked bonds);
- Assets which have low expected long-term growth and low expected volatility (such as cash).

## CONSIDERATION OF FINANCIALLY MATERIAL FACTORS IN INVESTMENT ARRANGEMENTS

The Trustee recognises that the consideration of financially material factors over the appropriate time horizon of the investments, including ESG factors and climate risk, is relevant in both the strategic development and implementation of the investment arrangements. The Trustee further recognises that the financial materiality of any factor, including ESG factors and climate risk, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others. The Trustee will consider such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will engage with their investment managers. The Trustee will develop and maintain a framework for assessing the impact of all investment risks on long-term investment returns. As part of this, the Trustee monitors the age profile of the Scheme’s membership to arrive at an appropriate investment time horizon.

## CONSIDERATION OF NON-FINANCIALLY MATERIAL FACTORS IN INVESTMENT ARRANGEMENTS

The Trustee recognises that some members will have strong personal views or religious convictions that influence where they believe their savings should, or should not, be invested.



While the Trustee will bear members' views in mind when reviewing the suitability of the Scheme's investment options and choice of funds used, the Trustee will not be bound by the members' views (for instance where it is uneconomic or impracticable to do so).

Furthermore, the Trustee notes that a large majority of members have not made active investment choices and so the Trustee believes that most members are unlikely to have strong views on where their savings are invested.

The Trustee has not imposed any restrictions or exclusions to the default investment arrangements based on non-financially material factors. The Trustee does however make available an ethical equity fund and a Sharia Law equity fund within the self-select range for members who are likely to hold stronger views in these areas than the majority of members. These funds take into account non-financial factors into the investment process and can be used by any member.

The Trustee notes that non-financial factors can affect various investment risks which are borne by members and may under- or out-perform other funds with broader-based investment approaches.

**Fund managers are otherwise only expected to take non-financial factors into account when these do not conflict with the financial interests of members and the Scheme's investment objectives.**

## STEWARDSHIP

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment platform and fund managers and the monitoring of compliance with agreed policies.

## MEMBERS' FINANCIAL INTERESTS

The Trustee expects that the investment platform provider and fund managers will have the members' financial interests as their first priority when choosing investments.

## CONFLICTS OF INTEREST

When appointing or monitoring platform providers and investment managers' funds on the provider's platform, the Trustee will seek independent advice from the Scheme's investment consultants. In addition, the Trustee expects that the platform provider and each investment manager has an appropriate conflicts of interest policy in place. This includes any provisions to disclose any potential or actual conflict of interest to the Trustee.

When given notice the Trustee will consider the impact of any conflicts of interest arising in the management of the funds used by the Scheme.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are investing in new issuance, the Trustee expects the investment manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.



## VOTING AND ENGAGEMENT

The Trustee believes that engagement with the companies in which the Scheme invests, including the proactive use of shareholder voting rights, can improve the longer-term returns on the Scheme's investments.

The Scheme invests via an investment platform provider, who in turn invest in funds which are pooled with other investors to keep costs down and ensure adequate diversification. As a result, the Trustee has adopted a policy of delegating voting decisions on stocks to the underlying fund managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The fund managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustee has reviewed the voting and engagement policies of the fund managers as well as the approach to governance of the investment platform provider and determined that these policies are appropriate. On an annual basis, the Trustee will request that the investment platform provider and fund managers provide details of any change in their house policy and notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement.

Where appropriate, the Trustee will engage with and may seek further information from the investment platform provider and fund managers on how portfolios may be affected by a particular issue.

The Trustee does not engage directly but actively encourages the fund managers to engage with key stakeholders which may include corporate management, regulators and governance bodies and other investors, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks.

The Trustee expects the investment platform providers to adopt similar practices with regards to the inclusion and ongoing oversight of fund managers on their platform. The Trustee also expects the platform provider to be able to evidence their own governance practices on request.

## MONITORING


The Trustee receives an independent investment performance monitoring report on a quarterly basis. The Trustee will review the performance of the appointed investment manager from time to time, based on the results of their performance, compared to their stated performance objectives, and investment process.

The Trustee periodically monitor the suitability the Drawdown Lifecycle Strategy and Annuity Lifecycle Strategy's objectives, and the performance of the Drawdown Lifecycle Strategy and Annuity Lifecycle Strategy against their objectives.

The Trustee expects the platform provider to monitor adherence of their investment managers to stated voting and engagement policies, engage with managers where concerns are identified and to report on these issues.

The Trustee monitors the voting activity of key funds used within the default strategy on a quarterly basis. The Trustee also periodically engages with the fund managers at update meetings. If the Trustee deems it appropriate, any issues of concern will be





raised with the manager for further explanation. Managers are challenged both directly by the Trustee and by their investment advisers on the impact of any significant issues including shareholder voting record, conflicts of interests and, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

The Trustee aims to meet with all major fund managers on an annual basis. The Trustee will provide the fund managers with an agenda for discussion, including issues relating to individual holdings and, where appropriate, ESG issues.

The charges for the investment options (expressed in terms of each fund's "Total Expense Ratio") are monitored by the Trustee to ensure that they represent "value for money" relative to the investment objectives of each fund.

The default option's compliance with the charge cap is monitored on a regular basis.

The Trustee recognises that transaction costs (both on the investment management of the funds underlying portfolio of assets and the "spread" upon buying or selling the funds) will impact the investment returns experienced by members.

The Trustee monitors the funds' transaction costs to ensure that they are reasonable and appropriate.

The Trustee periodically monitors the process whereby contributions in respect of members are invested in and disinvested from the Scheme's investment options.

## SECURING COMPLIANCE WITH SECTION 36, PENSIONS ACT 1995

The Trustee is required to meet the requirements of section 36 (and the relevant underlying regulations). This covers a wide range of duties regarding investing in members' best interests, the selection of investments, the management of investments, delegation and seeking advice. The Trustee acknowledges these requirements and has a policy of regularly engaging with its professional advisers on all significant issues relating to investment. In addition, the Trustee Board includes professional trustees which are expected to have a higher level of knowledge of these requirements compared to lay trustees.

## FOR THE RECORD

The Trustee obtains and considers proper advice from suitably experienced and qualified persons when choosing investments and preparing the Statement of Investment Principles.

Funds are chosen by the Trustee to give an expected level of return with an appropriate level of investment risk which meets the objectives of each default arrangement and other investment options.

The funds used at each stage of the default arrangement and the alternative lifestyle option are intended to deliver good member outcomes at retirement from an appropriate balance of investment growth relative to inflation and the then pertinent investment risks.

In relation to the default arrangement, in order to invest in a way which aligns with members' best interests the Trustee aims to achieve the objectives set out in the 'objectives for the default arrangement' section of this document.

The investment platform uses a life insurance company based legal vehicle for its funds. The fund managers used by the platform use a variety of different legal vehicles for their funds. The funds may invest in quoted and unquoted securities traded in regulated UK and overseas markets:

- Equities (company shares);
- Fixed interest and index-linked bonds issued by governments and companies;
- Cash and other short-term interest bearing deposits;
- Commercial and residential property;
- Illiquid assets including infrastructure, forestry, private equity and private debt;
- Commodities through collective investment vehicles; and
- Derivatives to facilitate changes in where funds are invested or to help control investment risks.

Funds provided through a life insurance company must comply with the Financial Conduct Authority ("FCA") "Permitted Links" rules, which place limits on the degree of leverage a fund can use. Fund managers using other fund vehicles subject to the European "UCITS IV" and the FCA's "Non-UCITS" regulations have to meet requirements on the security and concentrations of assets. Exchange Traded Funds may be used directly or indirectly to gain access to less easily traded and illiquid asset classes.

Subject to the funds' benchmarks and guidelines, the fund managers are given full discretion over the choice of securities and, for multi-asset funds, choice of asset classes. Fund managers are expected to maintain well-diversified and suitably liquid portfolios of investments.

The Trustee considers that these types of investments are suitable for the Scheme. The Trustee is satisfied that the funds used by the Scheme provide adequate diversification both within and across different asset classes.

## APPENDIX A

# Investment implementation for the default arrangement

### DEFAULT ARRANGEMENT

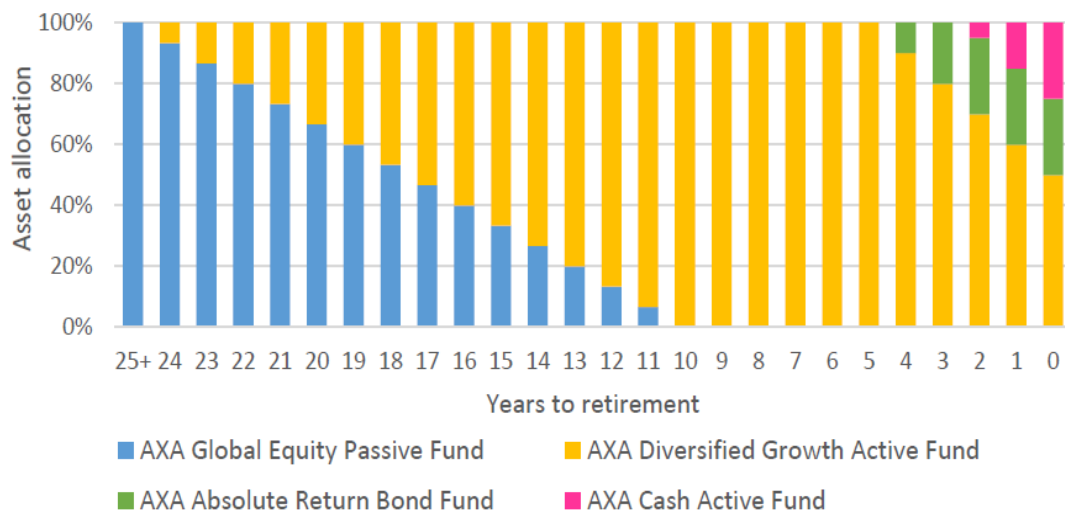
The default arrangement is a lifestyle strategy which targets flexible income drawdown at retirement.

Members are invested in funds expected to give higher returns relative to inflation up to 25 years before their normal retirement date.

Members are gradually switched into funds which are expected to give good returns relative to inflation while consolidating past investment gains between 25 and 10 years before their normal retirement date.

Finally, members are automatically switched into funds aligned to their expected benefit choices at retirement during the last 5 years up to their normal retirement date.

### Asset Allocation for the default Drawdown Lifecycle



## FUND ALLOCATION

The allocation to each fund in the default arrangement at yearly intervals up to a member's normal retirement date is:

Years to retirement	Global Equity Passive Fund %	Diversified Growth Active Fund %	Absolute Return Bond Fund %	Cash Active Fund %
25 or more	100	0	0	0
24	93	7	0	0
23	87	13	0	0
22	80	20	0	0
21	73	27	0	0
20	67	33	0	0
19	60	40	0	0
18	53	47	0	0
17	47	53	0	0
16	40	60	0	0
15	33	67	0	0
14	27	73	0	0
13	20	80	0	0
12	13	87	0	0
11	7	93	0	0
10	0	100	0	0
9	0	100	0	0
8	0	100	0	0
7	0	100	0	0
6	0	100	0	0
5	0	100	0	0
4	0	90	10	0
3	0	80	20	0
2	0	70	25	5
1	0	60	25	15
0	0	50	25	25

Rebalancing between these funds takes place on a quarterly basis.

## FUNDS AND CHARGES

The funds used by the default arrangement and their charges (expressed as a percentage annual management charge (“AMC”) and Total Expense Ratio (“TER”) as at 31 March 2019 are:

Platform Fund	Underlying fund	AMC %	TER %
AXA Global Equity Passive	BlackRock 30:70 Currency-hedged Global Equity Index	0.04	0.22
AXA Diversified Growth Active	50% Invesco Global Targeted Return Fund, 50% Schroder Dynamic Multi-Asset Fund (DMAF)	0.48	0.66
AXA Absolute Return Bond	Kames Absolute Return Bond Fund	0.33	0.51
AXA Cash Active	BlackRock Sterling Liquidity Fund	0.00	0.18

Members in the default option will see TERs range from 0.22% to 0.66%.

### INADVERTENT DEFAULT OPTION

In March 2020, the trading in the Property Fund was suspended, and contributions which would have been invested in this fund were redirected to the Cash Fund. The funds and charges (as at 31 March 2020) used by the inadvertent default options are:

Platform Fund	Underlying fund	AMC %	TER %
AXA Cash Active	BlackRock Sterling Liquidity Fund	0.00	0.18

## INVESTMENT COSTS

### FUND CHARGES

The investment platform provider’s and fund managers’ charges for the investment options are borne by the members.

The Scheme is a “qualifying scheme” for auto-enrolment purposes, which means that the Default Option is subject to the charge cap introduced by the government from April 2015.

### TRANSACTION COSTS

Transaction costs arise when the fund managers buy and sell the assets held by each fund. Costs may also be incurred when units in the funds are bought and sold. These costs are taken into account when calculating the funds’ unit prices and members’ fund values.

## REVIEW

The present default arrangement was introduced on 19/02/2015. Details on the review of this arrangement are set out in the annual ‘Chair’s Statement’ from the Chair of the Trustee.

# Appendix B

## Investment implementation for investment options outside the default arrangement

### LIFESTYLE OPTION

The Scheme offers members a choice of alternative lifestyle option, Annuity Lifecycle Strategy, as an alternative to the default arrangement.

### OBJECTIVE

The default arrangement’s lifestyle strategy, the Drawdown Lifecycle Strategy, targets flexible income drawdown at retirement with an intermediate overall level of expected investment risk and the alternative lifestyle option, the Annuity Lifecycle Strategy, target annuity purchase at retirement with a similar, but slightly lower overall level of expected investment risk.

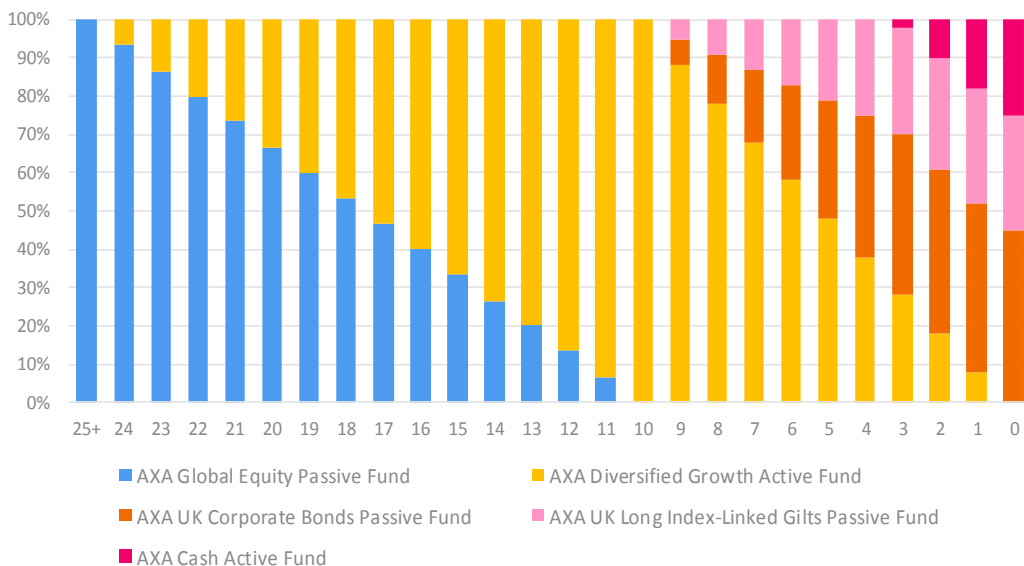
### APPROACH

Members are invested in funds expected to give higher returns relative to inflation up to 25 years before their normal retirement date.

Members are gradually switched into funds which are expected to give good returns relative to inflation while consolidating past investment gains between 25 and 10 years before their normal retirement date.

Finally, members are automatically switched into funds that align to their expected retirement choices during the last 10 years up to their normal retirement date.

Asset Allocation for the Annuity Lifecycle Strategy



## FUND ALLOCATION

The allocation to each fund in the Annuity Lifecycle Strategy at yearly intervals up to a member's normal retirement date are:

Years to retirement	Global Equity Passive Fund %	Diversified Growth Active Fund %	UK Corporate Bonds Passive Fund %	UK Long Gilts Passive Fund %	Cash Active Fund %
25 or more	100	0	0	0	0
24	94	7	0	0	0
23	87	14	0	0	0
22	80	20	0	0	0
21	74	27	0	0	0
20	67	34	0	0	0
19	60	40	0	0	0
18	54	47	0	0	0
17	47	54	0	0	0
16	40	60	0	0	0
15	34	67	0	0	0
14	27	74	0	0	0
13	20	80	0	0	0
12	14	87	0	0	0
11	7	94	0	0	0
10	0	100	0	0	0
9	0	88	7	5	0
8	0	78	13	9	0
7	0	68	19	13	0
6	0	58	25	17	0
5	0	48	31	21	0
4	0	38	37	25	0
3	0	28	42	28	2
2	0	18	43	29	10
1	0	8	44	30	18
0	0	0	45	30	25

Rebalancing between these funds takes place on a quarterly basis.

## FUNDS AND CHARGES

The funds used by the alternative lifestyle option, the Annuity Lifecycle Strategy, and their charges (expressed as a percentage [annual management charge (“AMC”) and Total Expense Ratio (“TER”) as at 31 March 2019 are:

Platform Fund	Underlying fund	AMC %	TER %
AXA Global Equity Passive	BlackRock 30:70 Currency-hedged Global Equity Index	0.04	0.22
AXA Diversified Growth Active	50% Invesco Global Targeted Return Fund, 50% Schroder Dynamic Multi-Asset Fund (DMAF)	0.48	0.66
AXA UK Corporate Bonds Passive	BlackRock Corporate Bond All Stocks Index Fund	0.02	0.20
AXA UK Long Gilts Passive	BlackRock Over 15 Year UK Gilt Index Fund	0.01	0.19
AXA Cash Active	BlackRock Sterling Liquidity Fund	0.00	0.18

Members in the Annuity Lifecycle Strategy will see TERs at a point in time in the range from 0.19% to 0.66%.

## SELF-SELECT FUND RANGE

The Scheme offers members a choice of 18 self-select funds options as an alternative to the default option and alternative lifestyle option.

### FUND RANGE

The choice of self-select funds and their charges (expressed as a percentage annual management charge (“AMC”) and Total Expense Ratio (“TER”) as at 31 March 2019 are:

Platform Fund	Underlying fund	AMC %	TER %
AXA Global Equity Passive	BlackRock 30:70 Currency-hedged Global Equity Index	0.04	0.22
AXA Diversified Growth Active	50% Invesco Global Targeted Return Fund, 50% Schroder Dynamic Multi-Asset Fund (DMAF)	0.48	0.66
AXA Absolute Return Bond	Kames Absolute Return Bond Fund	0.33	0.51
AXA UK Equity Passive	BlackRock UK Equity Index Fund	0.01	0.19
AXA UK Corporate Bonds Passive	BlackRock Corporate Bond All Stocks Index Fund	0.02	0.20
AXA UK Long Gilts Passive	BlackRock Over 15 Year UK Gilt Index Fund	0.01	0.19
AXA Cash Active	BlackRock Sterling Liquidity Fund	0.00	0.18
AXA UK Equity Active	Artemis UK Special Situations Fund	0.77	0.95



AXA Global Equity Active	MFS Global Equity Fund	0.65	0.83
AXA Overseas Equity Passive	BlackRock World ex-UK Equity Index Tracker Fund	0.01	0.19
AXA SRI	LGIM Ethical Global Equity Index Fund	0.30	0.48
AXA UK Long Index-Linked Gilts Passive	BlackRock Over 5 Years Index Gilt Fund	0.01	0.19
AXA Shariah Law Passive	HSBC Amanah Global Equity Index Fund	0.30	0.48
AXA Emerging Markets	JP Morgan All-Emerging Markets Equity Fund	0.85	1.03
AXA Property	BlackRock DC Property Fund	0.80	0.98
AXA Zone – AXA UK Select Opportunities	AXA Framlington UK Select Opportunities Fund	0.84	1.02
AXA Zone – Architas Passive Moderate	Architas Passive Moderate Fund	0.46	0.64
AXA Zone – Architas Diversified Real Assets Fund	Architas Diversified Real Assets Fund	1.11	1.29

## USE OF OPTIONS

Members can contribute to the alternative lifestyle option and self-select funds at the same time.

## INVESTMENT COSTS

The investment platform provider's and fund managers' charges for the investment options are borne by the members.

Transaction costs arise when the fund managers buy and sell the assets held by each fund. Costs may also be incurred when units in the funds are bought and sold. These costs are taken into account when calculating the funds' unit prices and members' fund values and are borne by members.

## REVIEW

The current alternative lifestyle option and self-select fund range were introduced on 19/02/2015 with additions made in Q4 2015 (introduction of AXA Zone – AXA UK Select Opportunities and AXA Zone – Architas Passive Moderate) and Q4 2016 (introduction of AXA Zone – Architas Diversified Real Assets Fund).

## LEGACY INVESTMENT OPTIONS

### ADDITIONAL VOLUNTARY CONTRIBUTIONS (“AVCs”)

In general, the Scheme offers members in the defined benefit sections the same choice of funds for their AVCs as are available to DC members. A small number of members have legacy AVCs which are invested in the Equitable Life With Profits Fund.

## APPENDIX C

### SUMMARY OF THE SCHEME'S SERVICE PROVIDERS.

#### FOR THE RECORD

The Trustee's approach to investment governance complies with the provisions of the Scheme's Trust Deed and Rules as well as legislative requirements.

The Scheme's investment governance is also intended to meet the expectations set out in the Pensions Regulator's 2016 Code of Practice 13.

#### EXERCISING THE TRUSTEE'S POWERS

The Trustee will always act in the best interests of the members.

The Trustee has delegated day-to-day work on the Scheme's administration and investments. The current service providers to the Scheme together with how they are paid is set out in Appendix D.

#### CONFLICTS OF INTEREST

In the event of a conflict of interests, the Trustee will ensure that contributions are invested in the sole interests of members and beneficiaries.

#### MONITORING

The Trustee regularly monitors and reviews:

**Investment Performance** - The performance of the funds in which the Scheme invests against both the funds' stated performance objectives and the investment objectives of the Scheme.

This will also include monitoring the levels of portfolio turnover in the event that significant under or out-performance occurs.


**Value for members** - The member borne charges for the default option against the charge cap for auto-enrolment purposes and the funds' charges and transaction costs to ensure that they represent value for members.

**Suitability** - The suitability of the default option and investment options outside the default arrangement at least every three years and without delay after any significant change in investment policy or the demographic profile of the Scheme's membership.

**The Statement of Investment Principles** - at least every three years and without delay after any significant change in investment policy or the demographic profile of the Scheme's membership. The Trustees will consult the Employer on any changes.

#### COMPLIANCE WITH STATEMENT OF INVESTMENT PRINCIPLES

The Trustee will monitor compliance with the Statement of Investment Principles annually and publish a report (known as an Implementation Statement) to members with effect from the Scheme year ending after 1 October 2020.



**Investment process** - The processes for investing contributions and taking money from the investment options to pay benefits to ensure that they are carried out promptly and accurately.

**Security of assets** - The security of funds' assets when choosing a fund provider/manager and thereafter.

**Voting** – The fund managers' records of exercising shareholder voting rights.

**Conflicts of Interest** – Instances where the actions of the platform provider or fund managers may be in conflict with the best interests of the Scheme's members.

## REPORTING

The Trustee arranges for the preparation of:

- The Scheme's audited Annual Report and Accounts (which includes the Annual Governance Statement);
- The Annual Governance Statement by the Chair of Trustees describing the Scheme's investment costs, value for members and governance during the previous year; and
- An annual Implementation Statement describing how the policies and practices described in the Statement of Investment Principles have been followed during the previous year;
- Publication of the Annual Governance Statement by the Chair of Trustee, Statement of Investment Principles and Implementation Statement in a publicly searchable location online; and
- An annual return to the Pensions Regulator.

## APPENDIX D SUMMARY OF THE SCHEME'S SERVICE PROVIDERS.

The Scheme's current service providers and their basis of remuneration are as follows:

Service	Provider	Remuneration basis
Investment platform provider	Aegon UK plc	Percentage of fund value included within funds' Total Expense Ratios
Fund managers	As shown in Appendices A and B	Percentage of fund value included within funds' Total Expense Ratios
Custodians	Selected by the fund managers.	Percentage of fund value included within funds' Total Expense Ratios
Pension administrator	Aegon UK plc	Percentage of fund value included within funds' Total Expense Ratios
Auditor	KPMG plc	Annual fixed fee and time cost fees
Investment Consultant	Hymans Robertson LLP	Annual fixed fee and time cost fees
Legal advisers	Travers Smith LLP	Annual fixed fee and time cost fees

Signed for and on Behalf of the Trustee of the AXA UK Group Pension Scheme.

S Yandle

S. Pitt

Trustee

Trustee

Date Agreed by Trustee: 29 September 2020