Statement Of Investment Principles

September 2020

Introduction

This is the AXA UK Group Pension Scheme's Statement of Investment Principles ("SIP"). It is prepared by the AXA UK Pension Trustees Limited (the "Trustee") of the AXA UK Group Pension Scheme (the "Scheme") and outlines the policies and principles that guide Trustee's decisions when managing the scheme's Defined Benefit obligations. The Trustee took advice from the Scheme's investment advisors when creating the SIP to ensure that it reflects a robust approach for the Scheme and to meet the objectives set out by the Trustee in consultation with AXA UK plc (the "Employer"). This document should be read in conjunction with the Investment Policy Implementation Document (IPID).

Compliance with this Statement

This Statement will be reviewed on an annual basis or following any material change in the investment policy.

The Trustee will monitor as appropriate at the formal meetings with the Investment Consultants that the various reviews mentioned in this statement are carried out.

This statement is signed For and on Behalf of the Trustees of the AXA UK Group Pension Scheme.

Stephen Yandle	Samantha Pitt
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Trustee	Trustee

Date Agreed by Trustees: 29 September 2020

Our Approach to Governance

Investment powers and compliance with the pensions act

This document contains the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 and subsequent legislation, principally the Occupational Pension Schemes (Investment) Regulations 2005 for the AXA UK Group Pension Scheme ("the Scheme"). The purpose of this is for the Trustee to declare the principles governing investment decisions for the Scheme.

This document fulfils that requirement. The Trustee is responsible for all aspects of the operation of the Scheme including this statement. As required by the Act, it has been drawn up and revised after consultation with AXA UK PLC as Principal Employer to the Scheme, in which capacity it is authorised to act on behalf of all the other Participating Employers according to the terms of the Deeds under which they respectively participate in the Scheme.

The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee. In drawing up this document, the Trustee has sought advice from the Scheme's Investment Adviser and other advisers as they see fit. The Trustee will review this document at least once a year, or where the Trustee consider a review is needed due to material changes to the Scheme. The Trustee have had regard to the requirements of the Act concerning diversification of investments and suitability of investments and the Trustee will consider those requirements on any review of this document or any change in the investment policy.

Investment Committee

The Trustee delegates responsibility for the implementation of the investment strategy and preparation of investment strategy recommendations to its Investment Committee ("IC"). Regular monitoring of the investment strategy takes place at least every quarter by the main Board. Details of the role of the IC are contained within the Terms of Reference as agreed by the Trustee.

Day – to – day management of funds

The day-to-day fund management of the assets is performed by professional fund managers, each of which is authorised and regulated by the Prudential Regulatory Authority and appointed in accordance with Section 113(4) of the Act.

The appointment, monitoring and termination of professional fund managers is the responsibility of the Trustee, acting on recommendations of the IC.

Our Integrated Approach to Scheme Management

Funding Objectives

The Trustee consider a holistic approach to the management of the Scheme's funding level. In doing so take account of Investment, Funding, Covenant and Non-Investment Risk when setting the Scheme's investment strategy.

The ultimate aim of the Trustee is to ensure that once the Scheme is fully funded it is able to meet pension payments in full as they fall due as well as meet expenses of the fund and in doing so also minimising any potential shortfall.

As part of the 2018 formal valuation, the Trustee in consultation with the Sponsor have ~~a~~ agreed a dynamic discount rate. This dynamic discount rate is derived from the return available on an appropriate low risk cashflow matching portfolio of high-quality credit assets with appropriate adjustments for investment risks, unhedged longevity risk and expenses. The discount rate will be reviewed annually based on the methodology agreed between the Trustees and the Company. The discount rate used to target the Scheme's ultimate self-sufficiency basis is consistent with that of the liabilities. As at the 2018 valuation this equated to an overall discount rate of Gilts + 0.60%.

The Trustee target a full funded Scheme by the date of 2028 formal valuation. The funding objective will be reviewed periodically by the Trustee with a full actuarial valuation every three years.

Investment Strategy

The investment strategy is set by the Trustee cognisant of the funding objectives, the actuarial valuation and the Principal Employer Covenant. The overall aim of the strategy is to allow the Scheme to achieve its investment objective while minimising the risk taken in doing so.

The Trustee seek to invest the majority of the portfolio in low risk cashflow generative assets to match as much of the liability cashflows as is affordable. As the Scheme becomes better funded they will look to increase the proportion of the portfolio in cashflow generative assets.

This strategy has been set with a view to supporting the long-term sustainability of the Scheme.

The progress of the Scheme's funding level ~~is~~ relative to its target is monitored monthly.

Risk Management

The Trustee recognise and monitor a number of risks (see Section on Considered Risks). In doing so the Trustee consider the risk of both investment risk alongside other non-investment risk to ensure the overall risk of the Scheme is within the Trustee agreed tolerance.

Our Investment Philosophy

Balance Between Different Kinds Of Investments And The Expected Return On Investments

The strategic asset allocation benchmark is designed to ensure that the Scheme's investments are adequately diversified and that the strategic distribution across asset classes provides a reasonable level of confidence that the level of returns required to meet the Scheme's liabilities is achieved with an acceptable level of risk.

The Trustee considers the long-term mixture of assets in relation to the Scheme's liabilities through an integrated asset/liability study. As a result of this analysis, the Trustee adopt an asset allocation specific to the requirements of the Scheme, taking into account expected returns, risk and liquidity on different asset classes.

Following the 2018/2019 valuation and the recognition of the long-term cashflow matching objective through the movement to a dynamic discount rate derived from an appropriate low risk cashflow matching portfolio, the Trustee allocated a portion of the portfolio to a cashflow matching strategy.

The Trustee holds the view that this allocation will increase over time as and when opportunities to purchase cashflow generative assets to match and meet pensioner liabilities. This supports both the long term funding of the Scheme and risk reduction.

The investment strategy takes due account of the maturity profile (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used). It is intended that investment strategy will be reviewed at least every three years, following actuarial valuations.

Kinds Of Investment To Be Held

The assets of the Scheme may be invested in quoted and unquoted securities on UK and overseas markets, mostly including, but not restricted to, equities, fixed interest bonds, index-linked bonds, property, hedge funds and cash. Use may also be made of derivatives and other contracts for the purpose of efficient portfolio management or management of investment risk.

The assets will not be invested directly in securities issued by the Employer or its ultimate parent AXA S.A., in securities issued by associate companies of the investment managers, or in companies which contravene the Ottawa Convention. Furthermore, the assets will not be invested in securities that negatively impact the Scheme's Environmental Social and Governance considerations ("ESG" – more detail on this provided in the ESG section.

The Trustee~~s~~ will also consider, from time to time, requests from the Employer not to hold, or not to increase, or to sell certain types of securities or asset strategies. Trustee decisions on such requests will recognise at all times that the Trustee's primary responsibility is to act in the best financial interests of the beneficiaries of the Scheme and that the Trustee must not engage in the day-to-day management of the assets.

Day- to-Day Asset Management

The Trustee delegates the day-to-day management of the assets of the Scheme to a number of investment managers.

Investment managers are carefully selected to manage each of the underlying mandates following guidance and written advice from the investment adviser(s). As required under Section 36 of the Act, the Scheme's investment adviser supporting the Trustee~~s~~ on a manager selection will provide written advice on new manager appointments in respect of the "satisfactory" nature of the investments.

The details of the fund manager structure, investment objectives and mandates for each fund manger are set out in the Investment Policy Implementation Document ("IPID").

Our Approach to Investment Managers

The terms of the long-term relationship between Trustee and its managers are set out in separate Investment Management Agreements (“IMAs”). These document the Trustee’s expectations of their managers, alongside the Investment Guidelines they are required to operate under.

The Investment Guidelines are based on the policies set out in this document (the SIP). The SIP is shared with the Scheme’s investment managers on an annual basis, and the Investment Guidelines are updated following any changes, ensuring the managers always invest in line with the Trustee’s policies.

When relevant, the Trustee requires its investment managers to invest with a medium- to long-term horizon, and use any rights associated with the investment to drive better long-term outcomes.

For some asset classes, the Trustee does not expect the respective asset managers to make decisions based on long-term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the Trustee’s strategic asset allocation.

Managers are paid an ad valorem fee for a defined set of services. The Trustee reviews the fees periodically to confirm they are in line with market practices, notably when the Trustee expects the manager to take an active ownership approach and consider long-term ESG factors.

The Trustee 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 than three years due to other factors such as a significant change in business structure or the investment team.

The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers periodically, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

Considered Risks

Real rate risk

- Real rates risk arises from the exposure of the liabilities to changes in interest rates and inflation.
- It is measured regularly and managed by hedging using a combination of physical and derivative assets. The long-term aspiration is to increase the hedge ratio to the same level as the self-sufficiency funding ratio.

Counterparty risk

- Counterparty risk is the risk to each party of a contract that the counterparty will not be able to meet its contractual obligations.
- It is measured through the Scheme's exposure to each counterparty.
- It is managed through the investment managers' guidelines for segregated mandates, including collateral arrangements, and by quarterly aggregated measurement by the Trustee.
- Included within the counter party risk is the custodian risk. This is measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.
- It is managed by monitoring the custodian's activities and discussing the performance of the custodian with the investment managers as appropriate.

Collateral risk

- Arises from the use of derivative assets which require collateral or margin payments on a regular basis.
- It is managed by investment managers who monitor collateral requirements on a regular basis within agreed guidelines. The Trustees also receive regular risk monitoring that highlight collateral requirements against collateral availability. The Trustees also take into account a prudent collateral requirement when deciding the strategic asset allocation and set aside sufficient assets of adequate liquidity to ensure that the Scheme does not become a forced seller of less liquid assets.

Default Risk

- Arises from the non-payment of legally due obligations.
- It is managed by investment managers who monitor the financial standing of individual investment (and/or pools of investment in the case of collective investments) and evaluate the likelihood of payment.
- The Scheme reserves for the expectation of non-payment though its modelling of anticipated asset cashflows effectively ensuring a higher cashflow is payable than it required to meet scheme liabilities in any given year.

Investment manager risk

- Arises from a manager not meeting the expectations of the Trustee.
- It is measured by the expected deviation of the prospective risk and return, as set out in the investment managers' targets and objectives, relative to the investment policy.
- It is managed by monitoring the actual deviation of returns relative to the targets and objectives and factors supporting the investment managers' investment processes.

Market risk

- Market risk arises from the underlying investment market volatility (i.e. the beta of the market).
- It is measured by the level of allocation in any one market leading to the risk of an adverse influence on investment values arising.
- It is managed by regular reviews of the actual investments relative to investment policy; assessment of the levels of diversification within the existing investment policy and quantitative Value-at-Risk analysis identifying split of exposure between different risk factors.

Currency risk

- Arises from overseas investments that are not denominated in the currency of the liabilities (in the case of the Scheme Sterling).
- Currency risk is considered an unrewarded risk by the Trustee over the long term and therefore is hedged where possible. In some instances unhedged exposure exists due to the nature of the underlying exposure and the ability to hedge the foreign currency exposure.

Mismatch Risk

- Mismatch risk occurs as a result of the implementation of the cashflow matching strategy. It arises as a result of asset cashflows not fully meeting liability cashflows as they fall due.
- It is measured by comparative analysis of the maturity profile of contractual asset flows and the liability cashflow profile.
- It is managed by regular review with fund managers and mitigated through the use of a return seeking asset allocation designed to provide income to fund mismatches

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Longevity Risk

- Describes the risk that members live longer than currently expected. This results in pensions being paid for longer than anticipated, increasing the liability profile and reducing the funding level.
- It is monitored through frequent review of mortality data and the implications this has on actuarial assumptions
- Management of the risk is undertaken through the use of longevity swaps. The Scheme makes a fixed payment to the counterparty in return for a floating rate payment into the Scheme from the counterparty that offsets increases in longevity.

Expense Risk

- Arises from Scheme expenses exceeding those that have been budgeted for.
- Expense Risk is managed by frequent review of both expense budgets for appropriateness, and monitoring and review of Scheme expenses for accuracy and timeliness.

Member Option Risk

- Member option risk can be defined as the risk that fewer pensioners exercise the option to transfer out of the Scheme before retirement than is forecast.
- It is monitored through the review of the Scheme's transfers out, and management of member data to ensure it is accurate and up to date.
- The risk is managed by actuarial review of the 'Enhanced Transfer value' offered to members to ensure it is economically attractive to members but also in line with the long term funding objectives of the Scheme.

Liquidity Risk

- Liquidity Risk can be described as the risk that the Scheme does not have available liquid assets to meet the Scheme's liabilities as they fall due. This risk exists in meeting pensioner liabilities when pensioners retire and require payments, but it also exists in meeting other Scheme liabilities such as expenses, collateral and capital calls.
- It is monitored by frequent review of the cashflow requirements of the Scheme and the assets marked to fund them.
- It is managed through a defined set of limits on available liquidity and frequent review by Investment Committee as to the appropriateness and effectiveness of policy and cashflows it governs.

Our Approach To ESG

Environmental, social and governance considerations

The Trustee believes that ESG factors (including but not limited to climate risk) will be financially material over the time horizon of the Scheme but will have varying levels of importance for different types of assets invested by the Scheme.

The Trustee supports a three phased approach to incorporating ESG considerations into the investment process.

- At the outset the Trustee has adopted a policy consistent with that of the Scheme Sponsor's Policy and implements it where practicable. Where it cannot be incorporated into the investment process, the Trustee adopts the best practice ESG considerations of Investment Managers.
- The second phase is the construction of a comprehensive ESG monitoring framework encompassing all viable assets.
- The final phase will be the implementation of a Scheme specific ESG policy.

The Trustee incorporates all financially material considerations into decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers, so far as possible.

This includes comparative analysis of ESG considerations when selecting investments.

The Trustee may consider non-financial factors (such as ethical or moral beliefs) in their investment decision-making, but only to the extent that these do not have a negative financial impact.

Stewardship and engagement

The Trustee recognises that good stewardship practices, including engagement and voting activities, are an important part of general Scheme governance as they help preserve and enhance asset owner value over the long term.

Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers.

The Trustee expects their investment managers to practice good stewardship. This includes monitoring, engaging with issuers of debt or equity on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and environmental, social and governance considerations, and using voting rights to effect the best possible long-term outcomes.

The Trustee assesses the ability of each investment manager in engaging with underlying companies in order to promote the long-term success of the investments. This review occurs on an annual basis and focuses on determining whether the investment managers have acted in line with this policy.

When selecting, monitoring and de-selecting asset managers, stewardship is factored into the decision-making process to the appropriate level for the specific asset class in question.

Whereas the Trustee choose managers that align with its beliefs on stewardship, there are instances where the Trustee has less direct influence over the managers' policies in the exercise of investment rights. For example, where Scheme assets may be held in pooled funds, due to the collective nature of these investments.

Engagement with relevant persons includes the exercise of rights (including voting rights) attaching to the Scheme's exposure to equity investments which are exercised by the asset managers of the Scheme. The Trustee monitors and discloses the voting records of its managers on an annual basis.

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Monitoring and review of ESG

The Trustee will monitor the Scheme's assets against its approach to ESG on an ongoing basis with the assistance of its investment advisors.

The development of its approach to ESG is viewed as an ongoing process, with the Trustees reviewing its approach periodically inline with the SIP. When reviewing its approach, the Trustee will take account of any significant developments in the market.

In order to further formulate the ESG integration alongside the broader risk management framework, the Trustee will update the SIP when they are comfortable that they have fully addressed this topic.