



Statement Of Investment Principles

November 2023

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 Trustee of the AXA UK Group Pension Scheme.

Trustee

Trustee

Date Agreed by Trustee: _____

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 has 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.

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 who are expected to have a higher level of knowledge of these requirements compared to lay trustees.

Our Approach to Governance cont.

Trustee Board

The Trustee monitors the implementation of the investment strategy and preparation of investment strategy recommendations, as well as regular monitoring of the investment strategy at the quarterly Trustee Board.

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.

Our Integrated Approach to Scheme Management

Funding Objectives

The Trustee considers a holistic approach to the management of the Scheme's funding level. In doing so takes 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. This can be described as full funding on a self-sufficiency basis; the Scheme is funded with enough assets to meet all future liabilities and can be regarded as self-sufficient. Assumptions used to calculate this measure are prudent, and allow the self sufficiency basis for measuring the funding level to be used for decision making.

As part of the 2021 formal valuation, the Trustee in consultation with the Sponsor have 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 Trustee and the Company.

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 seeks 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 the Trustee 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 relative to its target is monitored monthly.

Risk Management

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

Our Investment Philosophy

Balance Between Different Kinds Of Investments And The Return On Investments

The Scheme's assets are allocated against a strategic asset allocation benchmark. The benchmark is designed to ensure that the Scheme's investments are adequately diversified across different asset classes to provide a high level of confidence that the returns required to meet the Scheme's liabilities, when they fall due, are 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. This analysis provides a benchmark against which assets are allocated. As a result of this analysis, the Trustee adopts an asset allocation specific to the requirements of the Scheme, taking into account expected returns, risk and liquidity on different asset classes.

Following the 2021 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 there are 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, in accordance with the legal requirement.

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. ESG factors will be considered alongside other factors when taking investment decisions – more detail on this is provided in the “Approach to Responsible Investment” section.

The Trustee 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 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 manager are set out in the Investment Policy Implementation Document (“IPID”).

Our Approach to Investment Managers

The terms of the long-term relationship between the 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 financial 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 financial or non financial 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 counterparty 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 Trustee also receives regular risk monitoring that highlight collateral requirements against collateral availability.
- The Trustee also considers a prudent collateral requirement when deciding the strategic asset allocation and sets aside sufficient assets of adequate liquidity to ensure that the Scheme does not become a forced seller of less liquid assets. This is done in line with regulatory guidance and requirements on collateral.
- The Trustee maintains a liquidity waterfall that denotes a hierarchy of assets that can be used to support collateral requirements.

Default Risk

- Arises from the non-payment of legally due obligations.
- It is managed by investment managers who monitor the financial standing of individual investments (and/or pools of investments 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 is 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.

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 Responsible Investment

Responsible investing policy

The Trustee considers it has a responsibility towards its members including the impact the Scheme's asset portfolio has on our society at large. The Trustee strive to integrate responsible investment considerations into its investment process "while continuing to pursue an investment strategy suitable for the security of the benefits of Scheme members".

Responsible Investment (RI) is the integration of environmental, social, and corporate governance (ESG) considerations into investment processes and ownership practices, in the - increasingly documented - conviction that these may impact both risks and returns. In pursuing an RI policy, the Trustee references the overriding objective of attaining full funding for the Scheme. The Trustee therefore considers the policy in the context of required return and risk budget while framing changes in the context of the length of time the Trustee considers it necessary to reach this target.

It is in this context that the Trustee has mandated the development of a global approach to responsible investment issues which takes into account inclusion of ESG issues in investments processes, from a performance and risk management perspective; and also controversial sectors

The Trustee has also developed further detailed policies, which it applies in its dealings with the Fund's investment managers to ensure that:

- managers' investment strategy and decision-making are monitored and reviewed to assess their incorporation of ESG factors within their decision-making process and alignment with the Trustee's responsible investment policies using a responsible investment framework agreed with the Trustee's investment advisers;
- in relation to the appointment of new investment manager(s), the integration of ESG into their investment process is considered as a key selection factor used to assess the manager(s) during the investment due diligence process.

The development of its approach to ESG is viewed as an ongoing process, with the Trustee reviewing its approach periodically in line 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, once the Trustee considers it has fully addressed ESG integration the Trustee will consider whether it would be appropriate to update the SIP.

Responsible Investment Strategy

Pension Scheme’s Responsible Strategy is based on the main following pillars:

Pillar 1: ESG integration and stewardship

Pillar 2: Carbon Footprint & Climate-related portfolio alignment

Pillar 3: Green investment target, transition financing and impact investments

Pillar 4: Controversies – engagement and exclusion

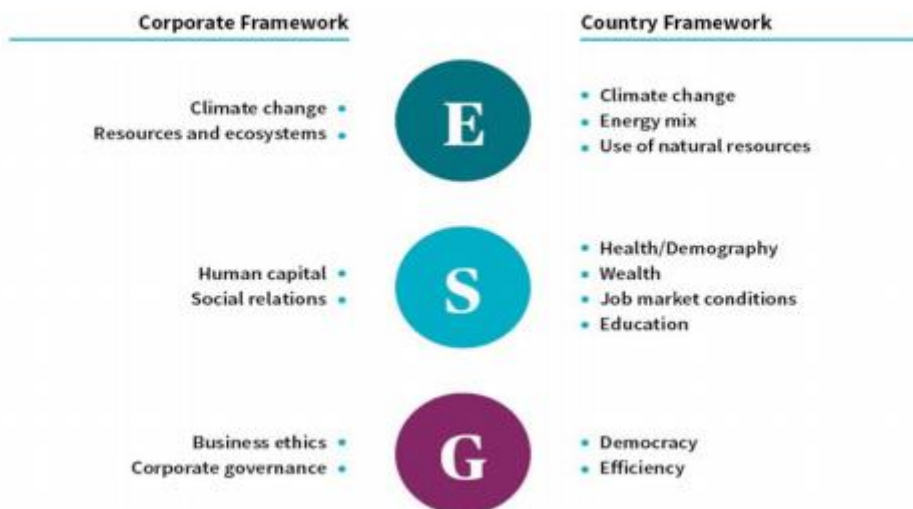
ESG integration and stewardship

The Scheme’s investment portfolio integrates ESG analysis into investment processes, using KPIs and qualitative research. The implementation of ESG “minimum standards” based on the ESG and controversy scores provided by each fund manager and the Sponsor. The target impact of these scores is to exclude potentially underperforming issuers.

The Trustee’s ambition is to score all asset classes. A proprietary methodology is in place to compute ESG scores for the main asset classes: equity issuers, debt of corporate issuers, debt of sovereign issuers and real assets (direct property, commercial real estate loans and infrastructure debt). For other asset classes the ESG assessment is based to a large degree on the results of questionnaires.

These ESG scores include an adjustment for controversies. This inclusion allows for an issuer’s involvement in ESG-related incidents. This can result in an override of the quantitative analysis of an ESG score if such incidents are regular or extremely severe.

A low ESG score might not fully reflect the ESG situation of an issuer at a point in time and that is why a “comply or explain” approach is in place. In this case the Trustee relies on a qualitative analysis by the Scheme’s investment managers.



The Trustee expects all fund managers to use the rights that accrue to investors, including votes and the scope to influence investee companies (and other invested assets) through active engagement. This can be used to encourage companies and other assets to deliver better performance against all the categories of ESG assessment highlighted in the diagram above. The trustee believes that this can help enhance ESG scores and more fundamentally it will help enhance the balance between risk and reward in its investment portfolios.

The Trustee will expect reporting on stewardship activities by its fund managers and will encourage more effective delivery of stewardship over time. Further details of the Trustee approach to stewardship can be found in the following section.

Carbon Footprint and Climate-related portfolio alignment

The Trustee believes that climate change is likely to be a financial risk that will affect all of the Scheme's investments to some degree, as well as the Scheme's liabilities and covenant. The Trustee integrates the monitoring of climate risk metrics into its wider risk management framework and considers these when making investment decisions.

The Trustee believes that climate change – and efforts to mitigate it – will likely create investment opportunities that the Trustee should do its best to take advantage of, where it is appropriate as part of the Trustee's wider strategic objectives and the Trustee's fiduciary responsibilities.

While recognising that there are limits to the quality of data available at the moment, the Trustee will encourage fund managers to capture the carbon footprint of their investments and the Trustee will seek to assess the overall carbon footprint of its portfolio. As the quality of data improves and methodology and industry practice evolves, the Trustee will update their measurement techniques and seek to measure the reduction in the Scheme's carbon footprint over time.

The Trustee targets to contain the "warming potential" of the Scheme's investment portfolio to 1.5°C above pre-industrial levels by 2050. Carbon metrics are integrated into investment decisions. Additional climate risk KPIs are being developed for measuring the climate-related impact. The target is to achieve convergence to net zero carbon emission and 1.5° C target in line with the objective of the COP21 ("Paris Agreement") to limit global warming.

In addition to quantifying the impact of Scheme's investment portfolio on climate change, the Trustee divests parts of the portfolio (coal, oil sands) or excludes whole sectors to effectively pursue climate-related objectives.

Green investment target, transition financing and Impact investments

In addition to "temperature" targets and divestments, green investments encourage various sectors to ramp up their climate strategy.

The target is to increase the allocation of green assets across various asset classes and transition financing to support companies shifting towards less carbon-intensive business models (reaching UN PRI's 1% recommended allocation)

The selection of green investments is based on proprietary analysis and encompasses various asset classes, currently green bonds, infrastructure investments, real estate and impact investments targeting positive environmental impacts. Some assets are externally labelled "green", for instance by the Climate Bonds Initiative, the rest qualify as such according to Sponsor definitions that are in line with the broad market approach.

Impact Initiatives allocate capital to create intentional, positive, measurable and sustainable impacts on society while simultaneously delivering financial market returns.

The Trustee believes that green investment opportunities need to be considered alongside and balanced against other relevant investments and considerations when evaluating investments. The Trustee therefore acknowledges that it may not always be able to invest in this type of asset if doing so would be to the detriment of wider strategic objectives.

Controversies – engagement and exclusion

The Trustee has a preference for "engagement" rather than "exclusion" as a method of incorporating ESG related risks into an effective risk management framework. The Trustee believes that engagement is an effective means of helping to manage the Scheme's ESG (including climate change) risks. However, its efficacy can be limited, and other actions should be considered alongside engagement.

The Trustee recognises that some social, societal, environmental or more general ethical issues are particularly sensitive and require a cautious approach. Certain activities and products could be inconsistent with the goals of protecting people over the long term and may be detrimental to the Scheme or Sponsor's reputation. In this context, the Trustee has agreed specific sector guidelines and business restrictions.

Sector-based restrictions apply to sectors or companies that face acute social, human rights, ethical or environmental challenges. These currently include controversial weapons, coal mining and coal-based power generation, tar oil sands and associated pipelines, palm oil, food commodity derivatives, and tobacco. These exclusions work alongside quantifying the impact of Scheme's investment portfolio on climate change, as noted above.

The most current Scheme's investment portfolio sector guidelines are available on the AXA Group RI website: <https://www.axa.com/en/page/responsible-investment>

The Trustee will keep these guidelines under review from time to time (including if these guidelines should materially change).

The Scheme's investment portfolio restrictions are based on sector-level blacklists and apply on a company name basis. Depending on the instrument and sector, new investments may be prohibited, or all relevant exposure may be required to be divested immediately.

ESG Targets

Based on these pillars and to demonstrate commitment to a Responsible Investment approach the Trustee has agreed to the following targets under which it will regularly monitor the Scheme's asset portfolio and adjust either the Scheme's strategy or implementation to meet these targets, but only to the extent that these do not have a negative financial impact.

- Maintain and incrementally improve the integrated ESG score
- Target net zero emissions by 2050. The Trustee will review an interim target to track progress against this goal.
- Actively exclude investments that are considered controversial as defined by the Scheme's policy
- Target a green investment exposure to exceed 1% by 2025 through a multi-class asset approach
- Target 1.5 degree C climate warming potential by 2050

Target and risk monitoring

The Trustee monitors the Scheme's assets against its approach to ESG on an ongoing basis with the assistance of its advisors. In addition, the Trustee's regular reporting identifies climate-related risks and opportunities which could influence the Scheme's investment strategy (and member security) and assess their impact. The Trustee identifies these risks and opportunities and their impact over the short, medium and long term.

As far as they are able, the Trustee undertakes scenario analysis assessing the impact on the Scheme's assets and liabilities, the resilience of the Scheme's investment strategy, the Scheme's funding strategy, and impact on the above agreed targets.

Stewardship and engagement

Environmental, Social and Governance issues may be financially material to the investment portfolio over the Scheme's time horizon. The Trustee considers the long-term financial interests of the Scheme to be paramount. 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.

While the Trustee delegates voting and engagement activities to the Fund's managers, it recognises its responsibility to oversee the voting and engagement activities carried out by managers on its behalf. The Fund's investment managers are therefore required to provide qualitative and quantitative data to the Trustee on a regular basis regarding their recent voting and engagement activities.

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.

To best channel stewardship efforts, the Trustee believe that the focus should be on a specific theme. The theme has been selected by assessing its relevance to the Scheme and its members, the financially material risks that they pose, and the maturity and development of thinking within the industry that allows for ease of integration into our approach. The themes of the Sponsor were also considered when selecting the theme for the Scheme. The key theme the Trustee has selected is Climate Change. The Trustee will consider additional themes in the future, and will include them in the policy if deemed significant and relevant.

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.

Should the Trustee's monitoring process reveal that a manager's voting and engagement policies and actions are not aligned with the Trustee's expectations, the Trustee will engage with the manager to discuss the rationale behind their voting and engagement activity and how alignment may be improved. If, following engagement with the manager, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the arrangements with the manager may be altered or their appointment terminated.

