

# Trustee's Report

## Implementation Statement

### Introduction

This SIP Implementation Statement ("the Statement") has been prepared by the AXA UK Group Pension Trustees Limited ("the Trustee") in relation to the AXA UK Group Pension Scheme ("the Scheme").

This Statement has been produced by the Trustee as required by the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended). The regulations state that the Statement must (amongst other matters):

- › set out how, and the extent to which, in the opinion of the Trustee, the Statement of Investment Principles ("SIP") has been followed during the year;
- › describe any review of, and explain any changes made to, the SIP during the year; and
- › describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on their behalf) during the year and state any use of the services of a proxy voter during that year.

Based on regulatory requirements, the Statement will cover the period from 1 April 2022 to the end of the Scheme's financial year on 31 March 2023.

The Statement is split into three sections:

1. an overview of the Trustee's actions and highlights during the period covered;
2. the policies set out in the SIP for both the DB and DC sections and the extent to which they have been followed in the reporting period; and
3. the voting behaviour and significant votes undertaken by the fund managers on behalf of the Scheme.

### SIP Updates

The DB and DC SIP that is most relevant for this reporting period is the document last updated in August 2021 to reflect the Trustee's updated Responsible Investment policy. From 1 October 2022, further DWP guidance on the reporting of stewardship activities through Implementation Statements came into effect. In light of this updated guidance, the SIP was reviewed and updated shortly after the Scheme year-end (in May 2023) to include the Trustee's chosen Stewardship theme and updated stewardship position. Next year's Statement will reflect this updated document.

### Overview of Trustee's Actions - DB

#### ***Investment Objectives and Strategy***

During the reporting period there was no change to the Scheme's overall full funding objectives.

There were a number of investment strategy changes over the year. These included:

- An increase in the target level of cash flow matching (to 72%), following a material improvement in the funding position of the scheme. The target was consistent with the funding and investment plan agreed as part of the 2021 valuation.

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- Following the significant rises in gilt yields over the year, especially following the “mini budget” in September 2022, a number of changes were made to improve the Scheme's collateral position. These included:
  - A number of sales in the non-cashflow matching portfolio. These included complete or near-complete redemptions of the following portfolios: AXA IM Global Securitised, AXA IM Leveraged Loans, Wellington Global Securitised and M&G Alpha Opportunities.
  - A complete sale of the Schroders cash flow matching portfolio.
  - The removal of the residual synthetic equity position.
  - A reduction in the interest rate and inflation hedge ratios. These were initially reduced to 80% (October 2022) but have since been increased to 85%.

The Trustee also considered and implemented various changes to improve the resilience of the portfolio to liquidity/collateral challenges. These included:

- Agreeing a contingent liquidity facility with the sponsor, which was temporarily drawn down in October 2022.
- Agreeing a corporate loan secured against some of the illiquid assets in the Scheme's portfolio.
- Moving some of the hedging of overseas currency and interest rate exposures to the corporate bond mandates.

The Trustee also reviewed its collateral management policy in line with changing market practice and regulatory guidance.

Overall, the Scheme's agreed strategic asset allocation continues to reflect the Trustee's view of the most appropriate investments, balancing risk/reward characteristics of the funds the Scheme is invested in, to support the Scheme's full funding objective.

### ***Trustee's policies for investment managers***

The Trustee relies on investment managers for the day-to-day management of the Scheme's assets but retains control over the Scheme's investment strategy.

The Investment Managers are responsible for the day-to-day management of the Scheme's assets in accordance with guidelines agreed with the Trustee, as set out in the Investment Management Agreements (“IMAs”) or pooled fund prospectuses. The Investment Managers have discretion to buy, sell or retain individual securities in accordance with these guidelines. The Investment Managers report to the in-house team regularly regarding their performance, which in turn reports back to the Trustee. Each of the investment managers' fees are related to the amount of assets managed within their portfolios. Minimum fees may also apply in some cases.

### ***Final Remarks***

As demonstrated in the following sections of this Statement, the actions the Trustee has undertaken during the relevant reporting period reflect the policies within the Scheme's SIP. Any changes to the investment strategy agreed during the period but implemented after the period had ended will be reported against in the next Implementation Statement.

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The responsibility for managing the Scheme's holdings is delegated to its fund managers. The Trustee believes that the Scheme's fund managers are well placed to engage with invested companies on environmental, social and governance ("ESG") matters, given their knowledge of the company and the level of access they have to company management. This is also a pragmatic approach because of the number of positions owned by the Scheme, and the amount of time corporate entities have available for single investors. However, the Scheme sets out its expectations to its asset managers in terms of Corporate Governance via its Statement of Investment Principles.

The Trustee believes that it should act as a responsible steward of the assets in which the Scheme invests as this can improve the longer-term returns of its investments. The Trustee notes that sustainable financial outcomes are better leveraged when supported by good governing practices, such as board accountability.

Over 2023, the Trustee plans to consider how best to meet the DWP's new expectations on stewardship and move to take more ownership of stewardship, as the new guidance expects. Changes to the Trustee's approach will be taken with regard to the Scheme's governance constraints and in the best interest of the Scheme's members. In particular, the Trustee is considering its own stewardship priorities and has refined its SIP accordingly. The Trustee engages with its managers to ensure that they are in turn engaging with the underlying investee companies on these priorities.

### Review of DB SIP Policies

The Trustee last reviewed the Scheme's DB Statement of Investment Principles in August 2021.

Overall, the Trustee is satisfied that:

- The Scheme's DB investments have been managed in accordance with the DB SIP; and
- The provisions in the DB SIP remain suitable for the Scheme's DB members.

The table on the following pages sets out the policies within the DB section of the SIP and the evidence that these were followed.

Policy	Has the policy been followed?	Evidence
<b>Funding Objectives</b>		
<p>The ultimate aim of the Trustee is to ensure that the Scheme is able to meet pension payments in full as they fall due, meet expenses of the fund and minimise the risk of any potential shortfall. In other words, that the Scheme is self-sufficient.</p> <p>The discount rate used to target the Scheme's ultimate self-sufficiency basis is consistent with that of the Technical Provisions liabilities. This is recalculated annually. As at 31 March 2023 this equated to an overall discount rate of Gilts + 0.86% p.a.</p> <p>The Trustee target a full funded Scheme by 2031</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The position of the Scheme against its self-sufficiency objective is reviewed on a quarterly basis by the Trustee, with clear written advice provided by either the in-house team or the Investment Consultant if either party deem the Scheme to be moving away from this target.</p>

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Policy	Has the policy been followed?	Evidence
<b>Investment Strategy</b>		
<p>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 without taking unacceptable risks to do so.</p> <p>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 they will look to increase the proportion of the portfolio in cashflow generative assets.</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The Trustee works closely with its advisers to ensure that the investment strategy remains appropriate.</p> <p>As at March 2023, c.55% of the Scheme's hedging cashflows were matched with most of the matching being achieved for terms under 30 years.</p> <p>The Trustee continues to identify opportunities to increase the proportion of the portfolio in cashflow generative assets, with the cashflow matching proportion rising from 53% of total assets to 55% over the year.</p> <p>The Trustee has considered in detail its approach to collateral management. As part of this, it has increased its target level of collateral headroom, developed a collateral waterfall, implemented a liquidity facility with the Sponsor, agreed a loan with the Sponsor backed by some of the Scheme's illiquid assets, and moved a portion of hedging to its cashflow matching portfolios.</p>
<b>Risk Management</b>		
<p>The Trustee recognises and monitors a number of risks. In doing so the Trustee considers investment risk alongside other non-investment risk to ensure the overall risk of the Scheme is within the Trustee agreed tolerance.</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The SIP lists a number of risk factors that the Trustee believes may result in a failure to meet the agreed objectives. The Trustee monitors and manages these risk factors through measures specific to each risk on a quarterly basis. It seeks guidance and written advice from its Investment Consultant as appropriate. Liquidity/collateral risk has been a key focus over the year.</p>

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Policy	Has the policy been followed?	Evidence
<b>Balance between different kinds of investments &amp; the expected return on investments</b>		
<p>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.</p> <p>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.</p> <p>The investment strategy takes due account of the maturity profile (in terms of the relative proportions of liabilities in respect of pensioners and deferred 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.</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The strategic asset allocation benchmark has been reviewed by both the investment consultant and the AXA UK Pension Strategy Team ("PST") on behalf of the Trustee over the course of the Scheme year. Particularly, the expected return and risk figures are closely monitored by the PST. The PST, with support from the investment consultant, is developing a decision-making framework to ensure that the impact on relevant strategic metrics (including risk and return) are monitored and considered as part of any investment strategy proposals.</p> <p>The investment advisers are available to provide written comment if it is deemed that the overall risk/return profile is not suitable to meet the Scheme's objectives.</p> <p>The overall liquidity profile of the Scheme was also monitored throughout the Scheme year to ensure that the overall allocation to illiquid assets remained below 40%</p> <p>The cashflow matching strategy that is being implemented by the Scheme takes account of the maturity profile of the liabilities to ensure that it matches a portion of the liability cashflows as precisely as possible.</p>

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Policy	Has the policy been followed?	Evidence
<b>Kind of investments to be held</b>		
<p>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.</p> <p>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.</p> <p>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.</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The assets that the Scheme is invested into fall into the categories set out in the SIP.</p> <p>No assets issued directly by the sponsoring employer were held over the course of the Scheme year.</p> <p>There were no requests over the course of the year from the sponsoring employer on which assets not to hold.</p>
<b>Day-to-day asset management</b>		
<p>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).</p> <p>As required under Section 36 of the Pensions Act 1995, 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.</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>Manager selection follows a rigorous due diligence process supported by the Scheme's investment advisor (Redington), the Scheme's ad-hoc manager selection consultant (Mercer), the Scheme's legal advisor (Travers Smith), and the company.</p> <p>This process is recorded and documented, and with Section 36 letters being obtained for all managers selected to provide services to the Scheme.</p> <p>Where specialist knowledge is required, the Scheme engages dedicated consultants to support the due diligence and selection process.</p> <p>The Trustee, through its quarterly Investment Committees, monitors the Scheme's asset managers' performance against any appropriate benchmarks and to ensure that the portfolios are being managed consistently with regards to the Scheme's strategic objectives.</p>

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Policy	Has the policy been followed?	Evidence
<b>Considered risks</b>		
<p>The risks, as stated in the SIP are assessed and monitored regularly.</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The SIP lists a number of risk factors that the Trustee believes may result in a failure to meet the agreed objectives. The Trustee monitors and manages these risk factors through measures specific to each risk on a quarterly basis. It seeks guidance and written advice from its Investment Consultant as appropriate. Liquidity/collateral risk has been a key focus over the year.</p>
<b>Responsible Investing Policy</b>		
<p>The Trustee considers it has a responsibility towards its members including the impact the Scheme's asset portfolio has on our society at large.</p> <p>In pursuing an RI policy, the Trustee references the overriding objective of attaining full funding for the Scheme. It 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.</p> <p>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 investment processes, from a performance and risk management perspective; and also controversial sectors.</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The Trustee reviews the ESG characteristics of the Scheme's portfolio at the quarterly investment committees, this includes ESG ratings on a global and portfolio-by-portfolio level, the warming potential of the asset holdings and associated carbon footprint.</p> <p>The Trustee benchmarks the Scheme against the indices on key social and governance objectives.</p> <p>Any breaches of sector exclusions e.g. coal, tobacco are also noted within the quarterly reports.</p>

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Policy	Has the policy been followed?	Evidence
<b>Responsible investment strategy</b>		
<p>Pension Scheme's Responsible Investment Strategy is based on the main following pillars: ESG integration and stewardship, Carbon Footprint &amp; Climate-related portfolio alignment, Green investment target, transition financing and impact investments and the final pillar: Controversies – engagement and exclusion.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• Maintain and incrementally approve the integrated ESG score</li> <li>• Target net zero emissions by 2050.</li> <li>• Actively exclude investments that are considered controversial as defined by the Scheme's policy</li> <li>• Target a green investment exposure to exceed 1% by 2025 through a multi-class asset approach</li> </ul> <p>Target 1.5 degree C climate warming potential by 2050</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The Trustee monitors each of these objectives as part of its quarterly investment committee.</p> <p>The Scheme's ESG score has improved over the year and the carbon footprint remains on target.</p> <p>There remained a limited exposure to excluded asset classes which the investment manager seeks to remove when opportunities arise so as not to negatively impact the Scheme's funding position.</p> <p>The Scheme also continues to move towards a greener portfolio and reduce its warming potential.</p>
<b>Target and risk monitoring</b>		
<p>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 regularly reports identified climate-risks and opportunities which it considers will influence the Scheme's investment strategy (and member security) and assess their impact.</p> <p>As far as it is 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.</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The Trustee monitors the ESG characteristics of the Scheme's asset holdings on a quarterly basis.</p> <p>As part of the TCFD requirements the Trustee undertakes climate scenario testing which demonstrates the resilience of the portfolio and the performance of the Scheme against its ESG objectives.</p>



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Policy	Has the policy been followed?	Evidence
<b>Stewardship and engagement</b>		
<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Yes, the Trustee is satisfied that this policy has been followed.</p>	<p>The Trustee exercises rigorous due diligence in the manager selection process and ensures that in selection the investment manager is situated to provide long term success to the Scheme within its mandate.</p> <p>The Trustee monitors the implementation and management activities of the Scheme's investment managers, as well as performance on a quarterly basis.</p> <p>Periodically the Trustee meets with the Scheme's investment managers, supported by the Scheme's advisors, to engage in detailed analysis of each mandate to ensure the managers' approach and activities continue to align to the long term best interests of the Scheme. This includes strategy reviews, performance reviews, ESG reviews, personnel updates, stewardship reviews.</p> <p>The Scheme does not hold any physical asset whereby the Trustee has a voting right. It is noted the Scheme's equity exposure (prior to its removal during the year) was obtained synthetically.</p> <p>Over 2023, the Trustee plans to consider how best to meet the DWP's new expectations on stewardship and move to take more ownership of stewardship, as the new guidance expects.</p>

### Final Remarks

Overall, the Trustee has demonstrated key actions for the Scheme during the relevant reporting period that show how it continues to make investment decisions in line with the policies set out in the SIP.

The reporting period for this Statement covers 1 April 2022 to 31 March 2023. Any actions undertaken by the Trustee after this date will be covered in the next Statement.