



Statement Of Investment Principles



October 2024

Introduction

This is the Statement of Investment Principles (“SIP”) for the AXA UK Group Pension Scheme (the “Scheme”). It is prepared by AXA UK Pension Trustees Limited (the “Trustee”), the Trustee of the Scheme and outlines the policies and principles that guide Trustee investment decisions when managing the Scheme’s assets to meet its Defined Benefit obligations. The Trustee is responsible for all aspects of the operation of the Scheme including this SIP.

The SIP satisfies Section 35 of the Pensions Act 1995 (the “Act”) and subsequent legislation, principally the Occupational Pension Schemes (Investment) Regulations 2005. As required by the Act, it has been drawn up and revised after consultation with AXA UK PLC as Principal Employer (the “Employer”) to the Scheme, in which capacity it is authorised to act on behalf of all the other Participating Employers. The Trustee has also taken advice from the Scheme’s investment advisers when drafting this SIP

Compliance with this Statement

This SIP will be reviewed on an annual basis together with the Scheme’s Implementation Statement or following any material change in the Trustee’s investment policies.

The Trustee has processes in place to ensure that the various policies and processes in this SIP are carried out. The Scheme Governance section in this SIP explains these in more detail.

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

Trustee

Trustee

Date Agreed by Trustees: _____

Our Approach to Governance

Scheme Governance The Trustee is responsible for setting the overarching investment strategy and for overseeing the investment of the Scheme's assets. This is done in consultation with the Employer and with appropriate advice from the Scheme's investment advisers.

The Trustee has designated AXA UK Group Pension Scheme Management ("AXA UK GPSM") as its primary investment manager. Implementation of the investment strategy has been delegated to AXA UK GPSM and other external investment managers, within investment guidelines agreed by the Trustee. AXA UK GPSM's role includes oversight of the external investment managers that are chosen by, and whose guidelines are set by, the Trustee.

The Trustee assesses the performance of the investment strategy in several ways. Detailed performance reporting is provided to the Trustee on a quarterly basis by AXA UK GPSM. The Trustee also receives independent oversight reporting from its investment adviser to help assess AXA UK GPSM's activities and to ensure that the investment strategy remains aligned to the Trustee's strategic objectives.

Use of AXA Group policies The Trustee utilises wider AXA expertise and infrastructure in relation to certain policies. These include the AXA IM Execution Policy, the AXA Group ESG Guidelines, the AXA Group Investment Watchlist, the AXA Group Risk Management Policy on Derivatives, the AXA Group Risk Management Derivatives Counterparty Risk Methodology and the AXA Group Risk Management List of Authorised Counterparties. AXA UK GPSM is instructed to act in line with these policies and the Trustee may review them periodically.

Our Investment Philosophy

Investment Objectives

The Scheme's assets are invested primarily to ensure that benefits can be paid to members as they fall due, over the life of the Scheme. In addition, the investments are also designed to help the Scheme achieve its primary funding objective, as outlined below, and to allow risk to be reduced through time.

As part of the 2021 actuarial valuation, the Trustee, in consultation with the Employer, agreed the primary funding objective for the Scheme is to be fully funded on a "self-sufficiency" basis which, once reached, should mean a low level of ongoing dependence on the Employer.

When the Scheme reaches full funding on this basis, the objective is to allocate Scheme assets in a "terminal portfolio" of low-risk assets - predominantly investment grade credit and government bonds - such that the cash-flows of the assets can be used to meet ongoing liability cash-flow payments as they fall due. This is a "cashflow matching" strategy, and it is expected that the amount of assets invested in such a way will increase over time as the funding level improves. The Scheme also invests in "non-cashflow matching" assets which are expected to grow by more than the liabilities over the longer term, thereby improving the Scheme's funding level.

The discount rate used to value the liabilities on the self-sufficiency basis is dynamic, reflecting the expected return available on the terminal portfolio with appropriate adjustments for investment risks (including downgrade and default risks), unhedged longevity risk (noting that the majority of it is hedged) and expenses. The discount rate will be reviewed annually based on the methodology agreed between the Trustee and the Employer

Investment Strategy

The Trustee takes a holistic approach when setting the Scheme's investment strategy, taking account of investment, funding, and covenant considerations. The overall aim of the strategy is to allow the Scheme to achieve its investment objectives while minimising the risk taken in doing so.

The Trustee considers three separate portfolios when constructing its investment strategy:

1. **Non-Cashflow Matching Portfolio.** This provides excess return over the liabilities to reduce the funding deficit.
2. **Cashflow Matching Portfolio.** This invests in fixed income assets that distribute regular cashflows to meet a portion of ongoing benefit payments.
3. **Lump Sum Portfolio.** This is used to pay lump sum benefits that are more uncertain, such as transfer values.

The Trustee has delegated authority to AXA UK GPSM to allocate assets between and within these categories providing the allocations align with AXA UK GPSM's investment guidelines, which have been set to ensure appropriate levels of risk and return based on the Scheme's progress in its journey plan.

This journey plan envisages that a combination of excess investment returns and Employer contributions will be required to improve the Scheme's funding level over time. As this happens, it is expected that the proportion of assets invested in the Cashflow Matching Portfolio will increase, and the proportion invested in the Non-Cashflow Matching Portfolio will decrease correspondingly.

The Trustee employs a liability-driven investment (LDI) strategy within the Cashflow Matching Portfolio as the primary hedging strategy to mitigate interest rate and inflation risks associated with the liabilities, which in turn reduces funding level volatility.

Within the Non-Cashflow Matching and Cashflow Matching portfolios, the Trustee also distinguishes between liquid and illiquid mandates. The Trustee sets the maximum overall proportion of illiquid assets to be held at 40% (to be reviewed from time to time), ensuring there is sufficient liquidity within the portfolio to meet the Scheme's liabilities and to support the liability hedging arrangements in a range of market scenarios.

Selection of and allocation between external investment managers and funds

The Trustee is responsible for selecting new funds and external investment managers. When a fund has been selected, it is added to AXA UK GPSM's list of eligible investments and they have discretion to allocate to the fund within certain parameters.

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 regularly engages with its professional advisers who provide written advice on the suitability of the external investment manager and of the asset class.

The Trustee allocates to several funds managed by AXA IM. It is comfortable allocating to funds/solutions run by AXA IM in preference to those run by other managers where it assesses that the AXA IM funds/solutions are of similar or higher quality at comparable or lower cost. Where AXA IM does not have funds or where other managers have a comparative advantage, the Trustee will not allocate to AXA IM funds.

Eligible Investments

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 and infrastructure-related assets, private market assets (including private equity and private debt), hedge funds, and cash. Derivatives and other contracts may also be used for the purpose of efficient portfolio management or management of investment and liability-related 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.

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.

To incentivise managers to make decisions based on assessments about medium to long-term financial performance, when evaluating a manager’s performance, the Trustee focuses on longer-term outcomes, and assessments occur over a medium to longer-term horizon, with a minimum evaluation period of three years. In addition, there is no fixed duration of arrangements with the investment managers.

For some asset classes however, the Trustee does not expect the respective asset managers to make decisions based solely 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.

The Trustee would not expect to terminate a manager’s appointment based purely on short-term performance (typically less than three years). However, a manager’s appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team, or a change of overall Trustee investment strategy.

Details on the construction of the portfolios, discretion on allocation to the various investment options and the journey plan of the investment strategy are detailed in the investment guidelines set by the Trustee for AXA UK GPSM.

In general, individual investment managers have discretion in the timing of the purchase and sale of investments and in considerations relating to the liquidity of those investments. Additional realisations may be required to ensure that the Scheme's benefit outgoings and other expenditure can be met. AXA UK GPSM, on behalf of the Trustee, will notify the investment managers of any amounts that need to be realised from their portfolios for the payment of benefits or expenses, and the timing and regularity of such realisations. AXA UK GPSM will also report back to the Trustee the portfolio transaction costs and portfolio turnover of its managers, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

External 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.

Considered Risks

The Scheme is exposed to several different risks, as set out in the table below. The Trustee monitors these risks closely, using regular reports provided by AXA UK GPSM and seeks to mitigate them with relevant actions and processes.

Risk	Risk is mitigated by:
Interest rate and inflation – The exposure of the liabilities to changes in interest rates and inflation.	Partially hedged using a combination of physical and derivative assets.
Counterparty – Risk that the counterparty will not be able to meet its contractual obligations.	Avoiding over-exposure to each counterparty and ensuring a diversified list.
Collateral – The use of derivative assets which require collateral or margin payments on a regular basis.	Retaining sufficient liquidity buffers within the LDI portfolio and non-cashflow matching assets.
Default – The non-payment of legally due obligations.	Ensuring appropriate credit quality in each mandate.
Investment manager – Performance expectations of the Trustee not being met.	Measurement and monitoring of investment manager performance relative to the benchmark or target return.
Market – Underlying investment market volatility.	Ensuring a sufficient diversification between different market risk factors.
Currency – Investments that are not denominated in the currency of the liabilities (GBP).	Hedging using derivatives where appropriate.
Mismatch – Asset cashflows not fully meeting liability cashflows as they fall due.	Holding sufficient liquid assets that can be used to raise cash if needed.
Longevity – Members living longer than expected.	Undertaking longevity swaps.
Member Option – Fewer pensioners exercise the option to transfer out of the Scheme relative to forecasts.	Regular actuarial reviews to ensure options remain appropriately priced for the Scheme members.
Liquidity – Not having available liquid assets to meet the Scheme’s liabilities as they fall due.	Having a defined set of limits on minimum available liquidity.



Our Approach To ESG

The Trustee has created a Responsible Investment (“RI”) Policy which details the Scheme’s main considerations and processes related to Environmental, Social and Governance (“ESG”) matters. In putting this RI policy together, the Trustee has taken into account the Sponsor’s approach to RI, governance and relevant activities, to be able to leverage these resources for the benefit of the Scheme.

The Scheme’s RI framework is centred around four key pillars:

1. ESG Integration
2. Carbon footprint and climate-related portfolio alignment
3. Green investment target
4. Controversies – engagement and exclusions

Based on these pillars, and to demonstrate commitment to a RI approach, the Trustee has agreed a set of targets under which it will regularly monitor the Scheme’s asset portfolio and adjust it as necessary; this, in turn, should incentivise its investment managers to align with the Trustee’s policies.

The Trustee considers that it has a responsibility towards its members to integrate responsible investment considerations into the investment process to the extent possible, while continuing to pursue an investment strategy suitable for securing member benefits.

The Trustee considers matters which are financially material over the appropriate time horizon of investments, which may include ESG issues (including, but not limited to, climate change). The Trustee considers the long-term financial interests of the Scheme to be paramount and, where appropriate and practical, it expects its investment managers to:

- i) consider financially material ESG issues in investment decision-making where it has the discretion to do so.
- ii) practice good stewardship which includes engaging with issuers of debt or equity on financially material ESG issues and using its voting rights to effect the best possible long-term outcomes.

Non-financial matters, such as the views of beneficiaries and members including (but not limited to) their ethical views and their views in relation to social and environmental impact, are not taken into account in the selection, retention and realisation of investments.

Stewardship

The RI Policy also describes the Trustee's approach to stewardship and engagement in more detail. It focuses principally on engagement given the Scheme's current asset allocation. The Scheme does not currently hold any assets with voting rights. However, in the event that assets were to be acquired which did have voting rights, the Trustee would look to update the SIP to reflect its policy on the exercise of such rights.

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

The key aspects of the policy include: Resourcing stewardship; the Trustee's priority stewardship themes; the process for overseeing parties that carry out stewardship and engagement activity on its behalf, and escalation of engagements.

The Trustee recognises that good stewardship practices, including engagement, are important as they help preserve and enhance asset owner value over the long term. To best channel its stewardship efforts, the Trustee believes that it should focus on key themes based on their relevance to the Scheme and its members and the financially material risks that they pose. As a result, the Trustee has initially selected two such themes: i) climate change and ii) diversity, equity, and inclusion (DE&I). These will be reviewed from time to time to ensure they remain appropriate.

The Trustee expects its investment managers to exercise influence wherever possible. This includes monitoring and directly engaging with underlying companies (or other relevant persons) and issuers of debt owned by the Scheme, on relevant matters such as performance, strategy, risks, capital structure, conflicts of interest and ESG considerations to effect the best possible long-term outcomes.

The Trustee, with support from its investment advisers, periodically assesses the ability of each investment manager in engaging with underlying companies to promote the long-term success of the investments.

Stewardship (cont.)

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. The Trustee holds responsibility for oversight and challenge of the stewardship practices of the Scheme's investment managers and will engage with them as appropriate.

