UBS (UK) Pension and Life Assurance Scheme

Statement of Investment Principles – Part One (DB Section)

November 2024

1. INTRODUCTION

The purpose of this part of the Statement of Investment Principles ("SIP") is to record the investment arrangements of the Defined Benefit ("DB") Section of the UBS (UK) Pension and Life Assurance Scheme (the "Scheme"). It is also designed to meet the requirements of Section 35 of the Pensions Act 1995, as amended, and the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation.

This SIP has been prepared after obtaining written professional advice from Mercer (the "Investment Consultant"). The Trustee believes that the Investment Consultant meets the requirements of Section 35 (5) of the Pensions Act 1995. The Trustee has also consulted the Principal Employer of the Scheme, UBS AG (the "Principal Employer").

This SIP is designed to fulfil the key objectives of the Myners' Code of Best Practice, first published in 2001 and revised in 2008, and the General Code of Practice (from 27 March 2024).

The SIP constitutes two parts; this part of the SIP covers the DB Section and a separate part covers the DC Section. Both parts together constitute the Scheme's Statement of Investment Principles.

2. INVESTMENT OBJECTIVES

The Trustee's primary objective is to invest the Scheme's assets in the best interests of the members and beneficiaries and with regard to the Principal Employer's interests, and in the case of a potential conflict of interest in the sole interest of the members and beneficiaries. Within this framework and after consultation with the Principal Employer, the Trustee has agreed a number of objectives to help guide the Trustee Directors in their strategic management of the assets and control of the various risks to which the Scheme is exposed.

The Trustee recognises that the Principal Employer has a key role to play in assisting the Trustee to fulfil its primary responsibility of paying benefits and accordingly seeks to maintain the continued long-term support of the Principal Employer. The Trustee therefore takes into account the Principal Employer's view regarding the funding of the Scheme, and also its ability and willingness to fund any future deficits (in other words, the Principal Employer's covenant) and reviews this at regular intervals. For the avoidance of doubt, this includes taking into consideration the Funding Collateral Pool arrangement.

Nature of Benefits

The DB Section was closed to future accrual with effect from 30 June 2013. As such the liabilities of the DB Section relate only to employed deferred members, deferred members, current pensioners and any dependants applicable under the Rules of the Scheme.

Accrued benefits for employed deferred members are generally revalued up to retirement, death or withdrawal from the Scheme in line with the Revaluation Increase. For deferred members, accrued benefits are increased between withdrawal and retirement in line with the Scheme Rules. The nature of the Scheme’s benefit increases create sensitivity to both CPI and RPI inflation within the liabilities. Please note that these descriptions are summaries only; full details can be found in the Trust Deed and Rules.

3. PORTFOLIO CONSTRUCTION

The Investment Committee has adopted a set of investment beliefs, which are used to assist in investment decision making. Using these investment beliefs the Trustee has adopted the following control framework in respect of structuring the investments of the DB Section of the Scheme. For the avoidance of doubt, in the unlikely event that these objectives clash, the investment objectives set out in Section 2 take priority over the control framework below:

- The investment strategy should take into account the liabilities of the Scheme and liability risks (including: interest rate, inflation, currency and longevity) should be hedged where practicable and cost efficient.

- There is a role for both active and passive management; however, the default should be passive management.

- The Scheme should strategically achieve real diversification through its sources of return, especially within its return seeking assets, to reduce risk. In addition to this, to help diversify manager specific risk, multiple manager appointments within a single asset class are preferred where practical.

- Investment in derivatives is permitted either directly or within pooled funds, as long as they contribute to a reduction in risk or facilitate efficient portfolio management.

- Investment may be made in securities that are not traded on public markets. Recognising the risks (in particular liquidity and counterparty exposure), such investments will normally only be made with the purpose of reducing the Scheme’s mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustee will ensure that the assets of the Scheme are predominantly invested on public markets. The exposure to private market and/or illiquid investments needs to be balanced against the need for investment flexibility.

- Investment in securities issued by the Principal Employer or affiliated companies is limited to a maximum of 5% of total assets and is monitored on an annual basis by the Trustee.

- No investment by an appointed investment manager in the securities issued by the relevant manager's company or any affiliated companies is permitted (other than any such securities held within a pooled fund in which the Trustee invests).

4. Risk Management and Measurement

The Trustee has considered the following financially material investment risks acknowledging the anticipated lifetime of the DB Section of the Scheme:

- The Trustee pays close regard to the risks that may arise through mismatches between the DB Section's assets and its liabilities. Such risks include un-hedged interest rate and inflation exposure as well as possible increases in member life expectancy.

- The Trustee recognises that it is not currently possible to select investments that exactly match all the liabilities within the DB Section of the Scheme. Given the ongoing commitment of the Principal Employer to the Scheme, a degree of mismatch risk within the DB Section is acceptable to the Principal Employer and the Trustee.

- Interest rate and inflation risk are managed through a dedicated LDI portfolio and longevity risk is partially hedged using a longevity swap, which protects the DB Section against any unexpected increase in life expectancy in respect of the subset of members covered.

- The liabilities of the DB Section are denominated in Sterling and as such any non-Sterling assets held give rise to currency risk. The Trustee manages currency risk by targeting a specific level of currency hedging, which seeks to balance risks and costs and therefore varies by asset class.

- The Trustee recognises that whilst increasing risk should increase potential returns over a long period, it also increases short-term volatility in the Scheme's funding position. The Trustee takes advice on the matter and, in light of the objectives noted in Section 2, carefully considers the implications of adopting different levels of risk.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. The Trustee believes that the asset allocation policy in place leads to a basket of risks that are appropriately diversified. The current agreements with the investment managers have regard to the need to diversify both between and within each asset class.

- The documents governing the manager appointments include a number of guidelines, which, amongst other things, are designed to ensure that only suitable investments are held by the Scheme as well as ensuring alignment between the investment managers' incentives and the Trustee's objectives. The terms of the Agreements do not allow the investment managers to do anything that could be considered to be "speculative" or "trading" by the financial services and tax authorities.

- The Trustee recognises that there is a risk in holding assets that cannot easily be sold should the need arise. To guard against this, the Investment Committee reviews the overall level of liquidity in the Scheme to ensure that there is sufficient liquidity to meet the likely cashflow requirements.

- The Trustee acknowledges that the DB Section is also exposed to Sponsor Covenant risk, as the current level of funding is below that required for there to be a high probability of self-sufficiency. However, the impact of sponsor default may be mitigated, to some extent, via the existence of the Funding Collateral Pool.

- The Trustee recognises that Environmental, Social and Governance concerns, including climate change, can have a financially material impact on returns. Section 8 sets out how these risks are managed.

The risk of the Scheme's investment strategy and that of potential strategies is measured by use of metrics such as Value at Risk, probability of full funding over a particular time period, and projected spread of surplus.

Should there be a material change in the DB Section's circumstances, the Trustee will review whether and to what extent the investment arrangements should be altered.

5. INVESTMENT STRATEGY

The Trustee is seeking to achieve an investment return, which, together with contributions from the Principal Employer, will meet the DB Section's investment objectives.

Asset liability analysis and subsequent advice from the Investment Consultant has formed the backdrop for recent discussions between the Trustee and the Principal Employer, regarding the most appropriate way to achieve the investment objectives.

The Trustee's current strategic asset allocation is shown below:

Asset Class	Benchmark (%)	Rebalancing Range (%)
Equities	1.8	0.0 – 4.0
Alternatives	12.5	0.0 – 16.5
Bonds[1]	85.7	80.0 – 90.0
Total	**100.0**	-

- The Trustee expects that over the long-term, the assets will provide a return similar to or in excess of the Scheme Actuary's investment return assumption used in the actuarial valuation.

- The discount rate assumption is based on gilt yields plus an appropriate margin as at the last actuarial valuation in 2023.

The Trustee reviews the strategy periodically to assess whether it remains appropriate.

[1] The bond portfolio is comprised of a number of sub-portfolios including a dedicated LDI mandate, which is permitted to use leverage. The aggregate bond figure represents the capital allocation to which the rebalancing range is applied.

6. Day to Day Management of Assets

The Trustee has delegated the day-to-day management of the assets of the Scheme to a number of investment managers (either directly or indirectly), having carried out appropriate due diligence.

7. Realisation of Investments

The Investment Managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. They also have responsibility for generating cash as and when required for benefit payments and expenses, as notified by the Scheme's Administrators.

8. Responsible investment and Corporate Governance

The Trustee believes that good stewardship and Environmental, Social and Governance ("ESG") issues may have a material impact on investment returns, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly require explicit consideration. The Trustee has taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision-making process.

The Trustee has adopted a separate Climate Change Policy, which sets out its support of the Paris Agreement in order to avoid the worst impacts of climate change by limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C within the context of its fiduciary responsibilities.

The Trustee has given the Investment Managers full discretion when evaluating ESG issues, including climate change considerations, and in exercising rights and stewardship obligations attached to the Scheme's investments. However, the Trustee expects that ESG considerations are embedded into each Investment Manager's investment decision-making process and the extent of integration as well as a review of each manager's policies is considered annually. ESG ratings as assigned to each fund and/or account invested in by the Scheme, as advised by the Investment Consultant, and the Trustee reviews these ratings on a quarterly basis.

The Scheme's voting rights are exercised by its Investment Managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code ("the Code"). The Trustee reviews the Investment Managers' policies and engagement activities (where applicable) on an annual basis.

The Code establishes a clear benchmark for stewardship through the responsible allocation, management and oversight of capital to create long-term value for schemes and beneficiaries leading to sustainable benefits for the economy, the environment and society.

The Trustee supports the Code for institutional investors, published in 2010 and revised in 2020 by the Financial Reporting Council, specifically:

- Monitoring the Investment Managers' compliance with the Code on a periodic basis;
- Considering compliance with the Code when appointing new Investment Managers; and
- Detailing the expectation that Investment Managers comply with the Code within Investment Management Agreements where practicable.

The Trustee keeps the topic of corporate governance and responsible investment under periodic review. The Trustee has not set any investment restrictions on the current investment managers in relation to particular products or activities, but may consider this in the future. The Trustee will periodically review the investment manager restrictions and will consider them as part of the annual monitoring governance process as well as when appointing investment managers.

Members' views on 'non-financial matters' (where "non-financial matters" includes members' ethical views separate from financial considerations such as financially material ESG issues), are not taken into account in the selection, retention and realisation of investments.

9. MANAGER ARRANGEMENT POLICIES

Aligning Manager Appointments with Investment Strategy

Investment Managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they are selected to manage.

To maintain alignment of the investment manager's investment strategy and decisions with the Trustee's own policies, the Trustee undertakes due diligence ahead of investing to ensure it is aware of the:

- nature of the underlying asset categories within the fund and how the manager will allocate capital between them;
- risks associated with the underlying mix of assets;
- expected return targeted by the Investment Managers and details around realisation of the investment; and
- impact of financial and non-financial factors, including but not limited to ESG factors and climate change, on their long-term investment decision making process.

The Trustee will review an appointment if the investment objective for a manager's fund changes to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Where the Trustee invests in pooled investment vehicles it accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

In respect of segregated appointments, the Trustee has specified the criteria in the investment management agreements for the asset class manager to be in line with the Trustee's specific investment requirements.

Investment Managers are aware that their continued appointment is based on the success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to review the appointment.

Evaluating Investment Manager Performance

The Trustee receives Investment Manager performance reports on a quarterly basis, which typically present performance information over 1 year, 3 years and since inception. The Trustee reviews the absolute performance, relative performance against a suitable index (where appropriate) used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee's focus is on long term performance but, as noted above, may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager;
- There is a change in the underlying objectives of the Investment Manager;
- There is a significant change to the Investment Consultant's rating of the manager.

The majority of investment managers are remunerated by way of a fee calculated as a percentage of assets under management. For the LDI manager, a fee is payable calculated as a percentage of the present value of liabilities hedged.

Where appropriate, active managers are incentivised through additional remuneration for achieving certain pre-agreed performance targets. Where such fees apply, a hurdle rate structure is in place to mitigate the possibility of the Trustee paying additional fees during periods of long-term underperformance.

Portfolio Turnover Costs

The Trustee does not currently actively monitor portfolio turnover costs in the DB Section. The majority of Investment Manager performance objectives are set net of all fees and costs and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustee receives some MiFID II reporting from investment managers but does not analyse the information. The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In the future, the Trustee may ask managers to report on portfolio turnover cost as part of annual manager monitoring. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

Duration of arrangement with Managers

The Trustee is a long-term investor and is not looking to change the investment arrangements on a frequent basis. The focus of performance assessments is on longer term outcomes so the Trustee would not ordinarily expect to terminate a manager's appointment based purely on short term performance.

Where the Scheme invests in an open-ended vehicle or holds a segregated mandate with a manager, the Trustee expects to retain the manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;
- The manager appointed has been reviewed and the Trustee has decided to terminate the mandate.

For investment in a closed-ended vehicle with an investment manager, the Scheme is invested for the lifetime of the strategy (which is disclosed to the Trustee at point of investment). In order to maintain a strategic allocation to an asset class, the Trustee may choose to stay with a manager in a new vintage of the fund or appoint a different manager.

10. MONITORING COMPLIANCE WITH THIS SIP

The Trustee will monitor compliance with this SIP in accordance with the annual reporting cycle following the Scheme year-end of 30 June each year. Where the Trustee invests in a segregated account with an Investment Manager, each Investment Manager will provide written confirmation that they have complied with their obligations under the Pensions Act 1995 (as amended). The Trustee will advise the investment managers promptly in writing of any relevant material change to this SIP.

11. REVIEW OF THIS SIP

The Trustee will review this SIP in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Principal Employer and relevant legislation and regulations, which they judge to have a bearing on the investment strategy of the Scheme. This review will occur at least triennially to coincide with the Actuarial Valuation of the DB Section. Any such review will be based on written expert advice and will be in consultation with the Principal Employer.

A copy of this SIP has been made available online.

Appendix A – Division of Duties and Responsibilities

Duties and Responsibilities	Executed By
1. Overall responsibility for the Scheme's investments, including defining the range of investment options offered.	The Trustee
2. Set investment objectives and investment strategy.	
3. Define the Terms of Reference for the Investment Committee.	
4. Appoint the members of the Investment Committee.	
5. Appoint the Investment Consultant.	
6. Consider recommendations from the Investment Committee.	
7. Work with the Actuary to consider the assumptions underlying the actuarial valuation.	

Duties and Responsibilities	Executed By
The Terms of Reference for the Investment Committee explicitly details the role of the Investment Committee. This includes the following Delegated Responsibilities: 1. Implementing the DB Strategic Investment Strategy (Asset Allocation and liability hedging) and associated journey plan. 2. Rebalancing and apportioning cash flow between investment managers in line with the DB Section's Rebalancing Policy set by the Trustee based on the recommendation of the Investment Committee. 3. Appointment and termination of the investment managers (funds), performance measurer and custodian for the DB Section, ensuring orderly transitions between providers. 4. Reviewing periodically the terms of appointment of the investment managers (funds) and their delegated powers and making amendments if appropriate. 5. Negotiating a fee scale, which may be performance related, for each investment manager and/or fund and other terms in any Investment Management Agreements, with periodic review. 6. Defining the detailed investment guidelines for the appointed segregated investment managers and monitoring the performance of each manager and fund against agreed investment objectives by means of regular review of the investment results and other information. 7. Meeting the investment managers on a regular basis to discuss their performance, actions and future strategy. Reporting back to the Trustee on any material concerns resulting from these meetings or action taken. 8. Monitoring the service of other providers to the IC on a regular basis, including Custodian, Performance Measurer and Funding Collateral Manager. 9. Monitoring the Scheme's DB Section's cash flow requirement in respect of benefits and expenses and taking actions to fulfill cash flow requirements. 10. Monitoring and reacting to legislative, financial and economic changes relating to investments and their potential impact on the Scheme's assets. 11. Monitoring adherence to the Statement of Investment Principles. 12. Monitoring the implications of the longevity swap for the Scheme. 13. Approving advice received from the Investment Adviser of the appropriateness of the investment strategy to which deferred members would be transferred to a third party. 14. Implementing the Trustee's Environmental, Social and Governance Policy (including climate change policy) within the Scheme's investment strategy. 15. Ensuring compliance with the Task Force of Climate-related Financial Disclosures (TCFD) reporting. The Investment Committee also has a number of Advisory Responsibilities. Further details can be found in the Terms of Reference.	The Investment Committee

Duties and Responsibilities	Executed By
1. Perform asset-liability modelling exercises, as required. 2. Advise on the strategic framework. 3. Advise on the selection of Investment Managers. 4. Assist in monitoring the Investment Managers on a calendar quarterly basis, providing both qualitative and quantitative input to the Investment Committee. 5. Assist in wider risk monitoring including implementation of / deviation from the strategic investment policy, asset and liability hedging mandates, covenant and security arrangements and exposures relative to defined limits. 6. Advise on the implementation of mandates. 7. Advise on the Statement of Investment Principles. 8. Advise on Environmental, Social and Governance matters (including climate change) and implications for the investment strategy. 9. Assisting with preparing the Task Force of Climate-related Financial Disclosures (TCFD) reporting.	The Investment Consultant
1. Operate within the conditions set down by the Investment Management Agreement or other fund governing documentation. 2. Select individual investments with regard to their suitability and diversification, taking into account ESG considerations. 3. Supply the Trustee and the Investment Committee with sufficient information each quarter to allow the review of activity.	The Investment Managers
1. Hold the Scheme’s assets in safekeeping. 2. Settle all investment trades as instructed by the Investment Manager. 3. Collect investment income and follow-up on corporate actions. 4. Manage the collateral assets supporting the longevity swap.	The Custodian