

## AbbVie Pension Fund (“the Fund”) Statement of Investment Principles

### **Investment Objective**

The Trustee aims to invest the assets of the Fund prudently to ensure that the benefits promised to members are provided. In setting investment strategy, the Trustee first considered the lowest risk asset allocation that they could adopt in relation to the Fund's liabilities. The asset allocation strategy they have selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Fund's liabilities.

In choosing this overall objective, the Trustee recognises the level of risk compared to the liabilities that accompanies the outperformance target.

### **STRATEGY**

The long-term asset allocation strategy chosen to meet the objective above is set out in the table below. The Trustee will monitor the actual asset allocation versus the target weightings set out in the table below.

<b>Asset Allocation Strategy</b>	<b>Target Weighting %</b>	<b>Range %</b>
<b>Risk Reducing</b>	45	35 - 55
<b>Return Seeking</b>	55	45 - 65

Return seeking assets are predominantly equities and could include certain types of alternative asset classes including infrastructure, private equity, property debt, property funds, multi-asset funds and absolute return funds.

Risk reducing assets are predominantly bonds and could include other financial instruments such as interest rate and inflation swaps. A proportion of the Fund's risk reducing assets are invested in a range of Liability Driven Investment (LDI) funds. The allocation to LDI funds is expected to broadly hedge 90% of interest rate and inflation linked liabilities, expressed as a proportion of the Fund's assets.

The Trustee believes that it is possible to add value to the Fund's investments by taking account of Aon Solutions UK Limited's (Aon) medium-term asset allocation views. As a result, the allocation to return seeking and risk reducing assets can move considerably from the target weightings in order to incorporate these views.

*This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Funds (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustees also comply with the requirements to maintain and take advice on the Statement and with the disclosure requirements.*

The Trustee's policy is to make the assumption that return seeking assets will outperform risk reducing assets over the long term and assumes that active fund management can be expected to add value. However, the Trustee recognises the potential volatility in return seeking asset returns, particularly relative to the Fund's liabilities, and the risk that the fund managers do not achieve the targets set. When choosing the Fund's asset allocation strategy, the Trustee considered advice from its investment advisers and, in doing so, addressed the following:

- The need to consider a full range of asset classes including private equity, property and hedge funds.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.
- Current market conditions and medium-term market views.

In addition, the Trustee consulted with the sponsoring employer when setting this strategy.

## **RISK**

The Trustee recognises that the key risk to the Fund is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause deterioration in the Fund's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy.
- The risk of a shortfall of liquid assets relative to the Fund's immediate liabilities ("cash flow risk"). The Trustee and its advisers will manage the Fund's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Fund's investment strategy and have also mandated to each of the fund managers employed that a suitably diversified portfolio of assets should be maintained at all times.
- The possibility of failure of the Fund's sponsoring employer ("covenant risk"). The Trustee and its advisers considered this risk when setting investment strategy and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially). Some of these risks may also be modelled explicitly during the course of such reviews. In particular, the mismatching risk was modelled explicitly as part of the most recent investment strategy review.

Having set an investment objective which relates directly to the Fund's liabilities and implemented it using a range of fund managers, the Trustee's policy is to monitor, where possible, these risks periodically. The Trustee receives quarterly reports showing:

- Performance of individual fund managers versus their respective targets.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

## IMPLEMENTATION

Aon has been selected as investment adviser to the Trustee. They operate under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions itself and to monitor those it delegates. Aon are paid on a fixed fee retainer basis for the regular work they undertake for the Fund although separate fixed fees or budgets may be negotiated by the Trustee for certain projects. Minor work is carried out on a time cost basis. This structure has been chosen to ensure that cost-effective, independent advice is received.

The fund manager structure and investment objectives for each fund manager (“mandates”), from June 2020, are as follows:

<b>Manager</b>	<b>Objective</b>
<b>M&amp;G</b>	Achieve 3% per annum outperformance of the 1-month LIBOR Index over a rolling three-year period.
<b>Schroders</b>	<p><b>UK Real Estate Fund:</b> Achieve 0.5% per annum outperformance of the AREF/IPD UK Quarterly All Balanced Property Fund Index Weighted Average Index over rolling 3-year periods, net of fees.</p> <p><b>Enhanced Securitised Fund:</b> Achieve a return of 3 Month LIBOR + 2% p.a., gross of fees, over a full market cycle.</p>
<b>Legal &amp; General</b>	<p><b>Global Emerging Markets Equity Index Fund:</b> To perform in line with the FTSE Emerging Index.</p> <p><b>Multi-Factor Fund:</b> To seek to provide both capital growth and income by tracking the performance of the SciBeta Developed High-Factor-Intensity Multi-Beta (vol, val, mom, pro/inv) Maximum Deconcentration Index.</p>
<b>Insight</b>	<p><b>LDI Enhanced Selection Funds:</b> Structure of investments designed to reduce the Fund's interest rate and inflation risk exposures</p> <p><b>Bonds Plus 400 Fund:</b> Achieve 4% per annum outperformance of the 3-month LIBOR Index.</p> <p><b>Liquidity Fund:</b> Provide stability of capital and daily liquidity with an income which is comparable to sterling denominated short dated money market interest rates.</p> <p><b>LDI Solutions Plus Partially Funded Gilts Funds:</b> Structure of investments designed to reduce the Fund's interest rate and inflation risk exposures.</p> <p><b>LDI Solutions Plus Funded Gilts Funds:</b></p>

	Structure of investments designed to reduce the Fund's interest rate and inflation risk exposures.
<b>ICG Longbow</b>	Targets a net IRR of 7.5% p.a. with a 6% net income distribution yield.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager through a written contract.

The managers' statements of corporate governance and voting activity are made available to the Trustee. These statements are also published on the respective websites of each fund manager.

## GOVERNANCE

The Trustee is responsible for the investment of the Fund's assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take themselves and which to delegate, the Trustee has taken into account whether they have the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision-making structure:

<b>Trustee</b>	<ul style="list-style-type: none"> <li>▪ Monitor actual returns versus Fund investment objective.</li> <li>▪ Set structures and processes for carrying out their role.</li> <li>▪ Select and monitor planned asset allocation strategy (incorporating medium term asset allocation views)</li> <li>▪ Select direct investments (see below).</li> <li>▪ Make decisions on: <ul style="list-style-type: none"> <li>▪ Selection of investment advisers and fund managers.</li> <li>▪ Structure for implementing investment strategy.</li> <li>▪ Monitor investment advisers and fund managers.</li> <li>▪ Monitor direct investments.</li> </ul> </li> <li>▪ Make ongoing decisions relevant to the operational principles of the Fund's investment strategy.</li> </ul>
<b>Investment Adviser</b>	<ul style="list-style-type: none"> <li>▪ Advise on all aspects of the investment of the Fund assets, including implementation.</li> <li>▪ Advise on this statement.</li> <li>▪ Provide required training.</li> </ul>
<b>Fund Managers</b>	<ul style="list-style-type: none"> <li>▪ Operate within the terms of this statement and their written contracts.</li> <li>▪ Select individual investments with regard to their suitability and diversification.</li> <li>▪ Advise Trustee on suitability of the indices in the benchmark.</li> </ul>

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, eg the purchase of an insurance policy or units in a pooled vehicle. The latter are known as **direct investments**.

The Trustee's policy is to review the direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' AVCs. An Aviva AVC arrangement is available for further contributions from active members of the Fund, with the options offering access to a range of asset classes with differing risk profiles.

When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Funds (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

Legal & General, M&G, Schroders, ICG Longbow and Insight are remunerated on an ad valorem basis. The level of remuneration paid to fund managers is reviewed annually by the Trustee against market rates to ensure the fund managers' interests are aligned with those of the Fund. ICG Longbow and Insight (for the Bonds Plus 400 mandate only) are also remunerated on a performance fee basis.

In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs. The Trustee receives statements from the fund managers setting out these costs and reviews them with advice from its investment adviser. This is to ensure that the costs incurred are commensurate with the goods and services received.

The pooled vehicles used at Legal & General, M&G and Insight all use their own custodian. The custodian for Legal & General is HSBC Global Investor Services, M&G's custodian is State Street Custodial Services (Ireland) Limited and Insight's custodian is Northern Trust Fiduciary Services (Ireland) Limited. Schroders do not use a custodian, instead the shares of the fund are held directly with the fund's Registrar who is Northern Trust Global Services Limited. The ICG Longbow mandate is a limited partnership with the appointed Depository, Sanne Group (Luxembourg) S.A. responsible for the custody of the partnerships assets.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

## **ARRANGEMENTS WITH ASSET MANAGERS**

The Trustee regularly monitors the Fund's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustee's policies. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by their investment consultant.

The Trustee receives quarterly reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the Fund. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Fund objectives and assesses the asset managers over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by the asset managers, which supports the Trustee in determining the extent to which the Fund's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Fund's asset managers, and request that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Fund invests in a collective vehicle, then the Trustee will express its expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at

least every three years. For certain closed ended vehicles, the duration is defined by the nature of the underlying investments.

### **Cost Monitoring**

The Trustee is aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Fund's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by their asset managers including turnover costs (i.e. the costs incurred when the assets managers buy and sell underlying investments).

The Trustee asks all of their asset managers to provide full details of the costs incurred in managing the Fund's assets and expect them to provide this information in line with the CTI cost transparency template. The costs are reviewed annually to determine the overall cost level and where these costs are out of line with expectations the managers will be asked to explain the rationale, including why it is consistent with their strategy and the extent they expect it to continue in the future.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year. The Fund's investment consultant monitors this on behalf of the Trustee as part of the manager monitoring they provide to the Trustee and flags to the Trustee where there are concerns. Where the Trustee's monitoring identifies a lack of consistency, the mandate will be reviewed.

The Trustee is supported in their cost transparency monitoring activity by their investment consultant.

## **RESPONSIBLE INVESTMENT**

In setting the Fund's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Fund's asset allocation, when selecting managers and when monitoring their performance.

## Stewardship Policy

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Fund invests, as this ultimately creates long-term financial value for the Fund and its beneficiaries.

As part of their delegated responsibilities, the Trustee expects the Fund's investment managers to:

- take into account social, environmental or ethical considerations in the selection, retention and realisation of investments; and
- exercise the Trustee's voting rights in relation to the Fund's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the manager and seeks a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Fund's asset managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner.

The Trustee will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Fund members on request.

The transparency for voting should include voting actions and rationale with relevance to the Fund, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the trustees or the asset manager.

Where voting is concerned, the Trustee expects their asset managers to recall stock lending as necessary in order to carry out voting actions.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

The managers' statements of corporate governance and voting activity are made available to the Trustee. These statements are also published on the respective websites of each fund manager.

**Members' Views and Non-Financial Factors**

In setting and implementing the Fund's investment strategy the Trustee does not explicitly take into account the views of Fund members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors")

**Date:** September 2020

**Signed:** Chair of Trustee