



Pensions

The Bupa Pension Scheme

Climate Disclosures Report for the Year Ended 30 June 2023

November 2023

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Message from the Chair

On behalf of the Trustee, I'm pleased to present our first public climate disclosures report. We believe that climate change is likely to be a key factor which influences the financial outcomes for the Scheme and should therefore be monitored and managed appropriately. In addition, we believe that the Trustee can contribute to the transition to a net zero economy, help improve societal living standards and tackle governance issues - positively impacting the world we all live in.

Whilst our overarching beliefs and principles in the area of climate change are consistent across both the DB and DC Sections of the Scheme, the approach that we apply across the two Sections is different given the different circumstances of each Section, and we have tried to draw out these differences within the report. The vast majority of the assets are held within the DB Section, and it is here where we feel we can have most impact.

As you will see throughout the report, the DB Section is in a strong place from a funding perspective. This provides the context for what you will read throughout the report, which is that, while climate change is expected to have a meaningful impact on the global economy, the Scheme's DB funding strategy is expected to be relatively robust under a range of different climate scenarios. We also describe the exposures that the DB Section has to various metrics and set out our aim of the DB Section's non-LDI asset portfolio being aligned with a 1.5°C Implied Temperature Rise by 2040, consistent with the more ambitious target of the Paris Agreement (the main aim of which is to hold the global average temperature increase well below 2.0°C and pursue efforts to limit it to 1.5°C), and with the approach adopted by the Scheme's sponsor.

It is worth acknowledging that reporting on climate change in this way is still relatively new to the investment industry and whilst some improvements have been made in recent years, the data underlying this analysis is not perfect, in particular where the Scheme holds illiquid or private investments. The Trustee expects that the quality of the data available will improve as the industry and wider economy continues to evolve.

We have actively engaged with the Scheme's Sponsor throughout the production of this report, both to understand and assess its efforts in this area but also to try to seek consistency in our approach and alignment in terms of our target. We have set up a robust governance framework that enables us to ensure sustainability is coherently integrated within decision making across the Scheme.

I'm proud of the work that the Trustee, ably supported by its advisers, has accomplished in this area to date, and I expect that we will have a continued focus on managing climate risk as we move forward. I hope that you find the report informative, and we will look to build on this in future years and report on our progress going forward.

Mr M Potkins

Chair of Bupa Pension Scheme Trustees Limited.

Section 1: Introduction

The Trustee of the Bupa Pension Scheme (hereinafter referred to as the “Trustee” and the “Scheme”, respectively) presents its first annual report under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the “Regulations”) for the year ended 30 June 2023.

This report sets out the Trustee’s approach towards managing the risks and opportunities presented by climate change across the DB and DC Sections of the Scheme.

The Trustee fully supports the Taskforce on Climate-Related Financial Disclosures’ (“TCFD’s”) aim of improving and increasing reporting of climate-related financial risks and opportunities. The Scheme is subject to the TCFD requirements with effect from 1 October 2022, with this first formal report required to be published by 31 January 2024.

The TCFD framework requires disclosures in four broad categories:

- **Governance:** around climate-related risks and opportunities
- **Strategy:** the actual and potential impact of climate-related risks and opportunities on the strategy and financial plans of the scheme
- **Risk management:** how the scheme identifies, assesses, and manages climate-related risks
- **Metrics and targets:** the metrics and targets used to assess and manage climate-related risks and opportunities



This report sets out the Trustee’s approach to compliance in each of these four areas. Following the transfer of the DC Section of the Scheme to Master Trust in 2021, the Scheme’s remaining DC assets (which represent a very small proportion of the Scheme) now consist of legacy investments which the Trustee cannot influence or change at this point in time. As a result, we have not covered these assets in the Strategy or Metrics & Targets Sections of the report and instead have focussed our efforts on the DB assets where the Trustee has more scope to influence.

Section 2: Governance

The Trustee recognises that an investment's financial success is influenced by a wide range of factors including Environmental, Social and Governance ("ESG") factors. The Trustee considers climate change as both a material risk and an opportunity, which should be integrated within the Scheme's investment processes and requires sustained, long-term oversight and management. To achieve this, the Trustee must have a robust and effective governance framework, which should be flexible over time to meet the needs of the Scheme and its beneficiaries.

The Trustee has ultimate decision-making responsibilities on all investment matters including identifying, assessing and monitoring climate-related risks and opportunities. The Trustee is supported by sub-committees and by third-party professional advisors covering actuarial, investment and legal aspects, amongst others. A formal Terms of Reference document governs the relationship between the Trustee and its sub-committees, setting out roles and responsibilities, and how the sub-committees report to the Trustee Board.

The key overarching investment policies of the Scheme are further detailed in the Statement of Investment Principles, which was last updated in July 2023. This document can be found online at the following link: <https://www.bupa.co.uk/~media/Files/MMS/digi-03123>

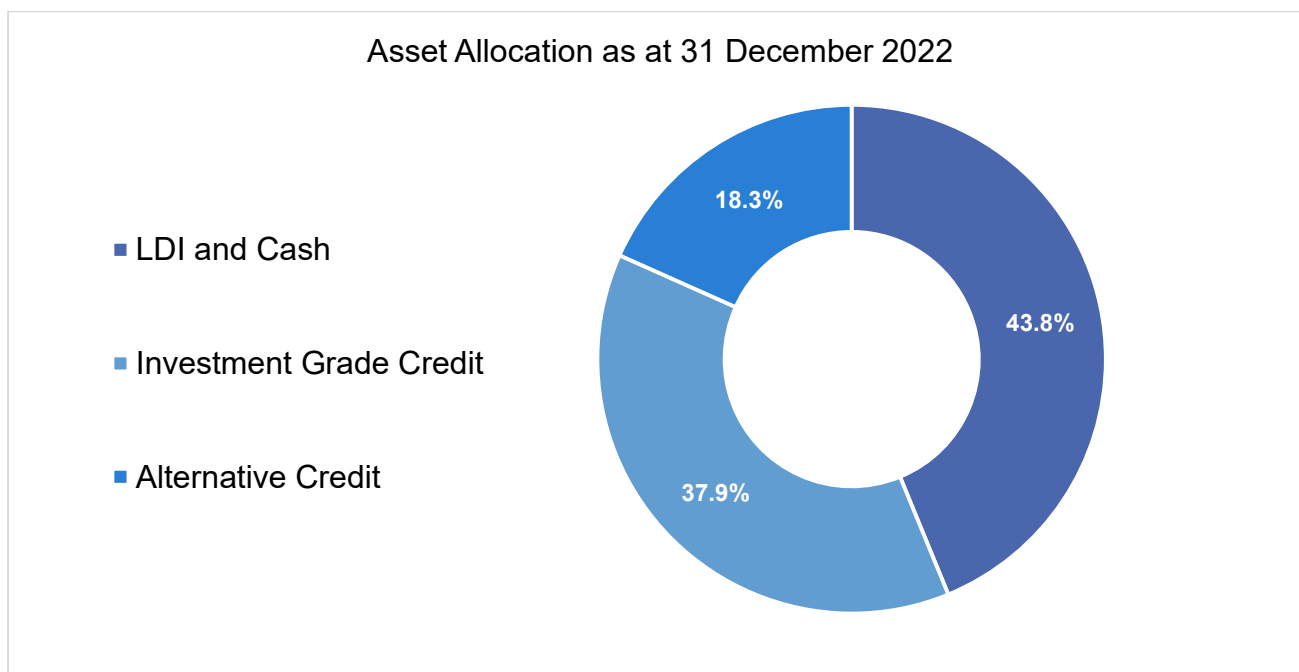
The Trustee has established a **Risk & Administration Committee (RAC)**, which is responsible for ensuring that the Scheme maintains appropriate risk management processes. The RAC meets at least quarterly and is responsible for ensuring that appropriate focus is placed on risk management across the spectrum of the Scheme's activities, and, for reviewing and maintaining the Scheme's risk register. ESG risks, including climate are included within the Scheme's risk register which is reviewed on a quarterly basis. The RAC reports up to the Trustee on a quarterly basis.

The **Investment Committee (IC)** has delegated responsibilities relating to investment matters, including climate change-related considerations. The Trustee retains responsibility for setting appropriate frameworks and for key strategic investment decisions, such as the Scheme's net-zero target detailed later in this report, and delegates monitoring responsibilities to the IC. The IC is responsible for implementing the Scheme's approach with regards to embedding climate change into investment processes and for reviewing this on an ongoing basis, as industry practices evolve. The IC is also responsible for ensuring that any parties used in implementing the Scheme's climate change strategy are closely monitored and held accountable for the work they do on behalf of the Scheme. The IC will consider a range of sustainable investment topics and initiatives and make recommendations to the Trustee Board where appropriate. The IC typically meets quarterly, but in practice will convene as required to deal with ad hoc investment matters. The IC has to date held two meetings which have been solely dedicated to discussing climate risk. The IC reports up to the Trustee on a quarterly basis and provides a summary of the key issues that it has discussed. Trustee approval for certain decisions is requested as appropriate and the Trustee has oversight of the production of this report.

Both the Trustee and the IC have received training on climate risk and the requirements of the TCFD regulations. The IC receives additional training as required and regularly discusses factors (including ESG) impacting the Scheme's investments, with the Scheme's Investment Consultant (WTW) and its investment managers as appropriate. WTW delivered several sessions focussed on ESG and sustainable investments over the last year covering the background on the TCFD regulatory requirements, approach for selecting climate metrics and targets, and climate scenario analysis.

Background information on the DB Section asset allocation

As of 31 December 2022, the Scheme held around £1.5bn of assets, split as per the chart below. The Scheme has a target asset allocation of 18% in “alternative credit” assets, 40% in “corporate credit” assets and 42% in “liability matching” assets.



In addition to its role as the Scheme’s Investment Consultant, the Trustee has also delegated responsibility for the ongoing management (including asset allocation and manager selection) of the Scheme’s alternative credit assets to WTW where it acts as the Scheme’s **Delegated Manager (DM)**. The parameters for the mandate include consideration of ESG factors, including climate risks and opportunities. The performance of the DM is also reviewed by an independent third-party oversight provider, XPS.

The rest of the Scheme’s DB assets are split between a buy and maintain investment grade credit mandate and an LDI portfolio. Whilst consideration is given to both manager’s capabilities in the area of ESG, the main focus to date has been on the investment grade credit assets. These assets are managed on a segregated basis and the Trustee has defined specific restrictions for the mandate in relation to the portfolio’s exposure to thermal coal and tar sands, alongside some other social factors.

Roles and responsibilities in respect of managing climate risk for different asset classes	
Buy and maintain investment grade credit	<ul style="list-style-type: none"> Investment Consultant / Trustee reviews and monitors the ESG capabilities of the investment grade credit and LDI manager. Trustee has delegated responsibility for stewardship with underlying investee companies to the investment grade credit manager. Investment Consultant / Trustee engages with the investment grade credit manager on a regular basis to understand ESG developments
Alternative credit	<ul style="list-style-type: none"> Alternative Credit is managed by the Delegated Manager, who has authority to make investment decisions within the parameters defined in the investment guidelines. The Delegated Manager implements their ESG views with regards to the construction of the alternative credit fund and the selection of underlying managers within alternative credit. Delegated Manager engages with the underlying investment managers and monitors/reviews their ESG capabilities. Investment Committee engages with the Delegated Manager on a quarterly basis with regard to the performance of the portfolio. Periodic updates on the integration of ESG are provided by the Delegated Manager.

The Scheme has set an Implied Temperature Rise (ITR) target of 2040 for its credit assets which is aligned with keeping global warming to no more than 1.5 degrees Celsius. In doing so, the Trustee has engaged with the Sponsor (i.e., the Scheme’s sponsoring employer) with regards to the parameters of the net-zero strategy adopted by the Scheme, to seek alignment with the Sponsor’s strategy and targets where possible and appropriate given the Trustee’s wider objectives.

Interaction with our advisors and other third parties

The Scheme’s Investment Consultant provides support and advice to the Trustee across a range of investment topics, including ESG matters. The Trustee has recently engaged in an additional training session provided by its Investment Consultant. The training provided further insights into current best practices in the realm of ESG and stewardship and presented actions taken by other Trustees that may inform and enhance the Scheme’s approach to sustainable investing in the future.

The Trustee has set strategic objectives for WTW which include specific reference to supporting the Trustee in sustainable investing and with preparing this report. The Trustee assesses the Investment Consultant against these objectives, and reviews the objectives themselves, on an annual basis. No key concerns have been noted to date and the Trustee has maintained an open dialogue with its advisors throughout the year. The Investment Consultant works closely with the Trustee’s other advisors, in particular the Scheme Actuary, Mercer.

The Trustee expects the Scheme’s investment managers to have robust stewardship and engagement practices. The Trustee believes that the explicit integration of ESG factors into its investment process provides opportunities to increase expected financial returns and to have a positive environmental and social impact, as well as encouraging better governance practices in investee companies. Therefore, the Scheme seeks to partner with investment managers who have strong credentials in ESG and engagement.

The Scheme’s Investment Consultant researches the ESG capabilities of the Scheme’s buy and maintain credit manager and their views are formalised through ESG ratings. In addition, when appointing the Delegated Manager, the Trustee considered a number of factors including the manager’s capabilities and resources in relation to the incorporation of ESG. The Trustee expects its appointed investment managers to have integrated ESG factors as part of their investment analysis and decision-making process, and to undertake positive engagement with investee companies. The Trustee monitors the engagement activities of its investment managers as part of its annual implementation statement and no significant issues have been raised to date.

The Trustee has delegated sustainable investment decision-making to the Delegated Manager, who has discretion to implement their ESG views in the construction of the alternative credit portfolio, subject to the parameters defined in the mandate's investment guidelines. The Trustee meets with the Delegated Manager on a quarterly basis. The Trustee monitors the ESG performance of the alternative credit mandate on a periodic basis, and the Delegated Manager is responsible for providing the Trustee with updates in relation to any ESG developments within the mandate. No significant issues have been raised to date.

The Scheme's Delegated Manager has presented the Trustee with a comprehensive summary of the ESG capabilities for each manager within the alternative credit portfolio. This includes insights into any specific restrictions within their mandates (for example the segregated mandate managed by JP Morgan) or instances of positive investment strategies (for example the Scheme's investment with Rivage which invests green energy). Towards the end of the Scheme year, the Delegated Manager proposed an investment opportunity with a leading asset manager which offers strong ESG and climate characteristics. This opportunity which is focussed on green bonds in Asia is due to be added to the Scheme's alternative credit portfolio shortly.

The Trustee meets with the Scheme's investment grade credit manager (LGIM) on a biennial basis. The last meetings took place towards the end of 2021 and 2023 and as part of these discussions, LGIM has provided updates on the evolution of ESG within bond portfolios.

Acting as Investment Consultant and Delegated Manager for the relevant parts of the portfolio, WTW researches the ESG capabilities of the investment managers and provides views as appropriate. Outside of the delegated mandate, the Trustee has a policy to engage with its investment grade credit manager if there are any major gaps identified in their practices in order to encourage further alignment and reserves the right to terminate a manager if appropriate measures are not taken. The Investment Consultant also provides the Trustee with a brief overview of investment grade credit manager on sustainable investment as part of the implementation statement, which is updated annually. Within the delegated mandate, these activities are undertaken directly by the Delegated Manager. No managers have been terminated for this reason at this time.

DC assets

Following the transition to the Master Trust in 2021, the majority of the remaining DC assets are held within a with-profits policy managed by the DC Manager (Prudential). These assets are strategically invested to improve the long-term profit share for members but given the nature of the arrangements, the Trustee has no influence over the assets. As a result, the Trustee's main activity in relation to these assets is from an oversight perspective. Further information on the DC Manager's approach and work in the area of ESG and climate risks and opportunities is provided in the Risk Management Section of this report.

Section 3: Strategy

DB Section

The Trustee believes that the purpose of embedding climate risk considerations into investment decisions is twofold – improving investment outcomes for members, as well as positively impacting the world they live in. Climate change is a financially material risk to the Scheme, and merits significant attention.

As part of its analysis around the climate risk faced by the Scheme, the Trustee identified and defined the following elements of this risk and examples of impacts of the crystallisation of these risks:

Transition risk	Physical risk	Reputational risk	Regulatory risk
<ul style="list-style-type: none">• The indirect impact arising as a result of changes in society and economies to combat or adapt to climate change <p>• Example:</p> <ul style="list-style-type: none">• Assets: Some industries become obsolete (e.g. coal), reinvent themselves or others emerge (electric vehicles)• Liabilities: Improvements in mortality from healthier lifestyles	<ul style="list-style-type: none">• The direct impact arising as a result of chronic and/or acute changes in climate and extreme weather events <p>• Example:</p> <ul style="list-style-type: none">• Assets: Damage to physical assets underpinning securities (e.g. real estate and infrastructure)• Liabilities: Excess deaths arising from extreme weather	<ul style="list-style-type: none">• The increasing spotlight on pension schemes and climate change increases the risk of being “named and shamed” <p>• Example:</p> <ul style="list-style-type: none">• 2018 EAC report on 25 biggest UK schemes	<ul style="list-style-type: none">• Regulators are increasing pressure on pension schemes to explicitly consider climate change <p>• Example:</p> <ul style="list-style-type: none">• Implementation Statement• Mandatory TCFD reporting

With the timing of these impacts being uncertain, the Trustee has sought to assess how the Scheme may be affected by climate through different time horizons. In selecting different time horizons, the Trustee has considered a range of different factors impacting the Scheme.

	Short Term	Medium Term	Long Term
Timeframe	To next Triennial Actuarial Valuation (2026)	To 2032	To 2040
Primary types of risk	<ul style="list-style-type: none"> • Transition • Reputational • Regulatory 	<ul style="list-style-type: none"> • Transition • Physical • Reputational 	<ul style="list-style-type: none"> • Transition • Physical
Commentary	<p>Consistent with three-year actuarial valuation and investment strategy review cycle.</p> <p>In addition, recent developments in relation to the climate change regulatory environment and evolution in data quality, including the Corporate Sustainability Reporting Directive (“CSRD”) means that the quality of reporting and data availability is expected to improve over the period.</p> <p>Transition Risk The Trustee is predominately exposed to transition risks through its corporate bond assets.</p> <p>Reputational Risk The Trustee (and Sponsor) are exposed to reputational risks if the Trustee’s policies are very poorly aligned with peers and/or the Sponsor.</p> <p>Regulatory Risk The Trustee is exposed to regulatory risks, including fines, if it does not comply with evolving regulatory requirements.</p>	<p>About halfway between short and long timeframe; new liability data available following 2032 actuarial valuation</p> <p>Position of considerable maturity for the Scheme.</p> <p>Transition Risk The Trustee is most exposed to transition risks through its corporate bond assets.</p> <p>Physical Risk Financial effects of physical risk exposure are expected to begin to play a bigger role.</p> <p>Reputational Risk The Trustee (and Sponsor) are exposed to reputational risks if the Trustee’s policies are misaligned with peers and/or the Sponsors.</p>	<p>Broadly consistent with the duration of the Scheme’s liabilities. Given the long-term nature of these risks, there is a high level of uncertainty in terms of the likely effect and the potential magnitude of their impact.</p> <p>Physical Risk Financial effects of physical risk exposure are expected to be more pronounced.</p>

Climate scenario analysis

In 2023, the Trustee worked with its Investment Consultant to carry out climate change scenario analysis for the DB Section of the Scheme. The annuities (which represent a very small proportion of the Scheme's DB assets) have been excluded from this analysis as well as the metrics calculation in the later Section.

The aim of this analysis was to help the Trustee review the potential impact of climate change on the Scheme over different time horizons and then focus on possible actions to address the risks and opportunities presented. This analysis was based on the Scheme-specific asset allocation and liabilities as at 30 September 2022. Detailed discussions took place within IC meetings around the methodologies employed. The Trustee recognises that there is a great deal of uncertainty around the assumptions used and the analysis is expected to be further refined as data and industry standards improve, and as the Scheme's investment strategy evolves.

The Trustee has investigated four climate scenarios which are in part defined through their success, or otherwise, in meeting the temperature rise implied by the Paris Agreement. The Paris target is to limit global temperature rises to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. They have been constructed with reference to the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and other industry research. The scenarios differ in the size of the physical risks, based on the resulting temperature impacts, but also in the size of the transition risks (see above the key parameters). These are translated into estimate GDP growth impacts which are used to inform the estimated impact on assets returns. The liability impacts modelled are focused on the climate impacts on mortality. Specifically, the Trustee assumes that the long-term rate of mortality improvement will vary in each scenario, and the liability values have been re-calculated under these different mortality assumptions. The impact of each scenario on mortality assumptions have been derived using judgement from professional actuaries at WTW and are designed to illustrate the potential direct and indirect impacts of climate on mortality. These include the impacts of climate change on weather patterns, lifestyles, and the socioeconomic situations of members. In the view of the Trustee, the four scenarios selected reflect an appropriate range of plausible decarbonisation pathways and are relevant in the context of the DB Section. The Trustee recognises that there is the potential for more extreme outcomes than reflected in the chosen scenarios.

The Scheme is undertaking its triennial actuarial valuation later this year and will look to incorporate any input received from the Scheme Actuary into future analysis. The Trustee has also discussed the approach undertaken to perform climate scenario analysis with the Sponsors, to allow for a certain level of alignment with the approach adopted by the Sponsor for its climate disclosure purposes. The key findings from the scenario analysis are presented below.

	Lowest Common Denominator	Inevitable Policy Response	Global Coordinated Action	Climate Emergency
Description	A “business as usual” outcome where current policies continue with no further attempt to incentivise further emissions reductions. Socioeconomic and technological trends do not shift markedly from historical patterns.	Delays in taking meaningful policy action result in a rapid policy shift in the mid/late 2020s. Policies are implemented in a somewhat but not completely co-ordinated manner resulting in a more disorderly transition to a low carbon economy.	Policy makers agree on and immediately implement policies to reduce emissions in a globally co-ordinated manner. Companies and consumers take the majority of actions available to capture opportunities to reduce emissions.	A more ambitious version of the Global Coordinated Action scenario where more aggressive policy is pursued and more extensive technology shifts are achieved, in particular the deployment of Negative Emissions Technologies at scale.
Temperature rise	~3.5°C	~2.0°C	~2.0°C	~1.5°C
Transition risk level	Low	High	Low – Medium	Medium – High
Physical risk level	High	Low – Medium	Low	Low

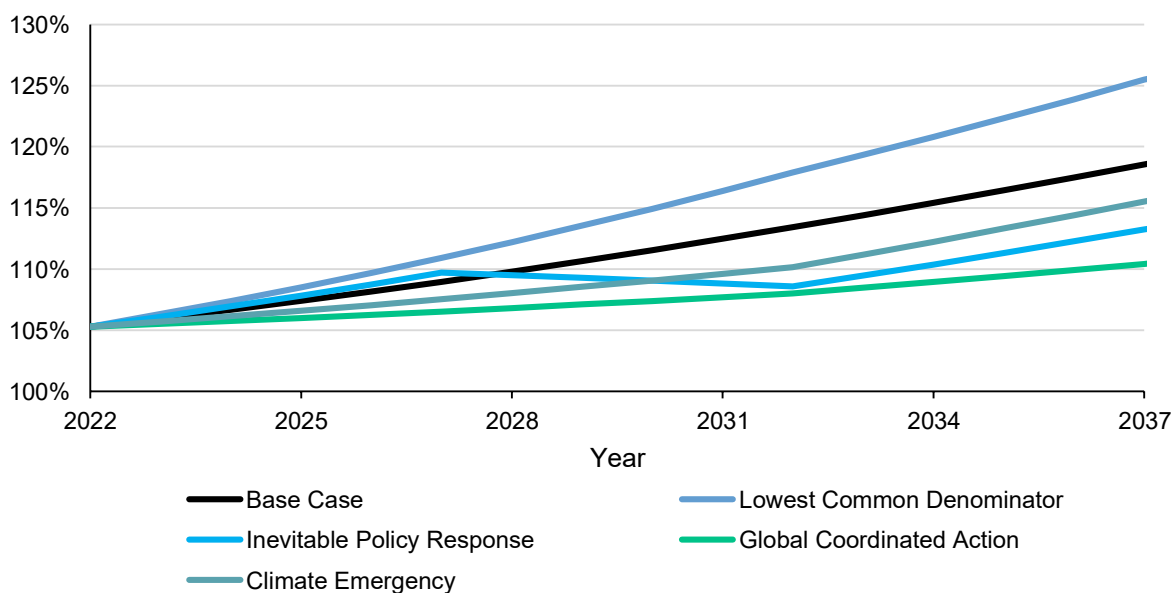
The 'base case' is the central funding projection against which the climate scenarios are considered. It projects, using the Investment Consultant's model, the assets and liabilities of the Scheme over the period considered. This considers commonly used central UK life expectancy projections for the liabilities (which includes an assumed long-term rate of improvement of 1.5% p.a. over period). It assumes that the current asset portfolio of the Scheme remains the same. It also does not make any explicit future allowance for climate change outcomes within the assumptions, but there is an implicit assumption that future outcomes will rhyme with history (which has exhibited other such large external shocks). The assumptions underpinning the model expect that current market pricing, which is to some extent built into the model, only allows for a small amount of transition risk (similar to the Lowest Common Denominator scenario) and makes no allowance for physical risk.

Below the Trustee has illustrated the impact of the climate change scenarios on the Scheme's funding level. The Trustee has considered these over a timeframe that is broadly consistent with the Scheme's longer term time horizon and the duration of the Scheme's liabilities. The Trustee recognises that assuming such climate scenarios are priced in gradually, year by year, is an unrealistic expectation and in practice this is likely to be far less linear. The Trustee has therefore also included a one-off shock which seeks to illustrate the impact if climate change was to be reflected instantaneously. This assumes that markets immediately price in the transition and physical risks over the next 20 years and that the market initially overreacts to this news in struggling to price in the actual impact. Whilst this is potentially unrealistic, the Trustee thinks this helpfully stress tests the assumptions made in the analysis and helps consider how robust the funding strategy might be. The Trustee also recognises the uncertainty in the underlying assumptions and that the shocks experienced could be larger.

In some climate scenarios, the modelling implies reduced life expectancies (relative to other scenarios and/or schemes' central mortality assumptions) and therefore a relative reduction in the Scheme's liabilities. This is a plausible potential outcome arising from the negative impacts of increasing climate change. This can suggest a relative improvement in the expected funding position for the Scheme even when combined with associated reductions in the value of the Scheme's assets (given their low-risk nature). However, it is important to recognise that an assessment of what is in the best interests of the Scheme and its members is a much broader question than the impact on funding level alone. Key considerations may be a reduction in the quality (and length) of members' lives, and the quality of the environment that they will retire into. Consequently, the results of any such modelling should not be assumed to reflect any complacency or acceptance (either implicit or explicit) that the Trustee considers global inaction or business-as-usual with respect to climate change to be in the best interests of the Scheme or its members. The Trustee believes that climate change is a systemic risk of unprecedented scale and severity. Actions to address it are a collective priority, given the risks it presents to individual pension schemes, the ongoing resilience of the savings universe, and the planet.

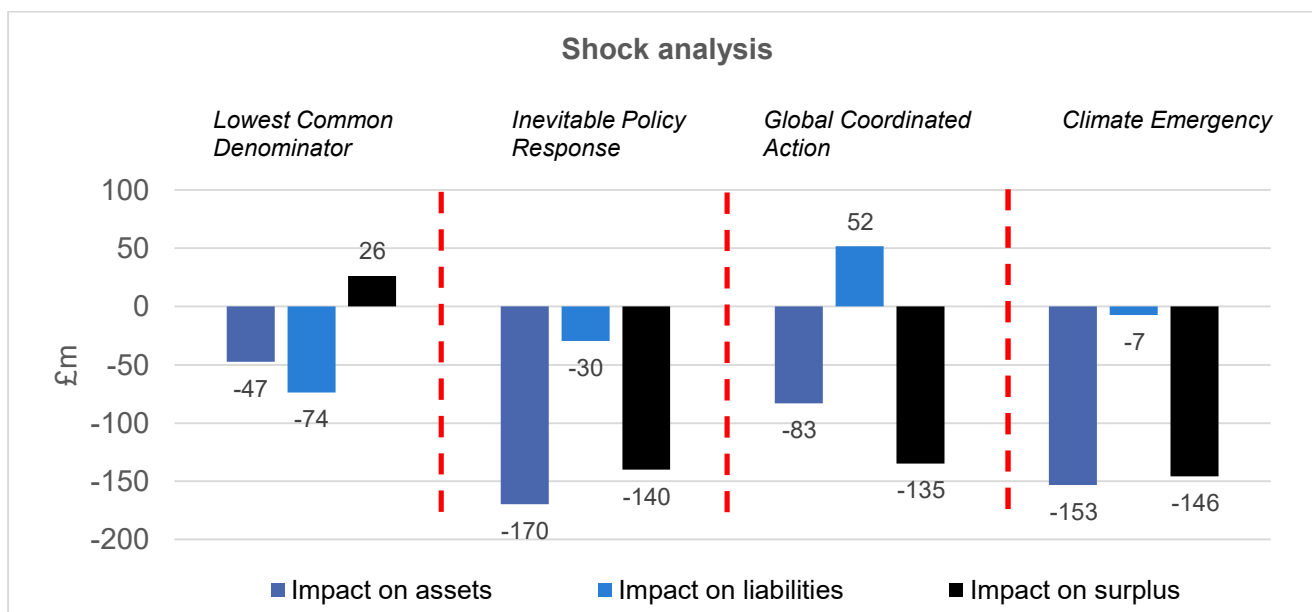
Impact of Climate Drags and Shocks on the Scheme's Funding Level (gilts + 0.5%)

The chart below shows how the DB Section's funding level is expected to evolve under the different climate scenarios considered (defined in the earlier table). This illustrates the range of potential funding outcomes. The scenarios vary based on the level of assumed transition and physical risk that occurs (shown in the earlier table), such that over the short-term a high transition risk scenario has greater impact on asset returns and in the longer term there is a greater impact of the physical risk from climate change.



The Base Case was derived from the Scheme's funding level of 105.4% (using a gilts + 0.5% basis) as of 30 September 2022. This timing coincides with the UK gilts crisis, a notably turbulent period in the markets that affected the funding levels of numerous pension schemes. Since then, the Scheme's funding level had rebounded to 110.4% as at 30 June 2023. Projecting the funding levels from this starting point would result in different, shorter trajectories than those shown in the chart below. At the time of writing, The Trustee is completing a triennial actuarial review and will look to review the investment strategy as part of this process, including considering whether the climate scenario analysis should be repeated based on the results of the actuarial valuation and any subsequent changes to the investment strategy.

Impact of Climate Shocks on the Scheme's Funding Level (gilts + 0.5%)



	Base Scenario	Lowest Common Denominator	Inevitable Policy Response	Global Coordinated Action	Climate Emergency
Assets (£m)	1,554	1,507	1,384	1,471	1,401
Liabilities (£m)	1,475	1,401	1,445	1,527	1,468
Surplus (£m)	79	106	-61	-56	-67
Funding level (%)	105.4%	107.6%	95.8%	96.3%	95.4%

Based on the climate scenario analysis presented above, the Trustee does not expect that any fundamental changes are required to the investment strategy arising from the expected impact of climate risk on the Scheme. However, the Trustee is due to review the Scheme's investment strategy in conjunction with the 2023 triennial actuarial valuation and will consider climate risk as part of this review.

The scenarios assume that all other factors are equal during the efforts to transition to a low carbon economy which the Trustee acknowledges is very unlikely to occur in practice. Second order effects, such as higher levels of investment, employment, and productivity-enhancing innovation, are hard to estimate (and will likely offset some of the falls highlighted in the analysis), hence the climate scenarios are not the sole driver of investment strategy and risk management decisions.

Ultimately, the Trustee believes that the Scheme's investment strategy is reasonably resilient to the potential impacts of the climate scenarios considered. The Scheme's funding level is strong, and the overall portfolio is relatively low risk. Furthermore, in each of the scenarios considered, the Scheme's funding level is still expected to improve over the long-term. That said, the Trustee recognises that climate risks and opportunities are likely to have a material impact on financial outcomes for the Scheme and the Trustee is committed to taking active steps to address this. The climate scenario analysis performed above does not cover any implications that climate risk may have on the Sponsor covenant. However, the Scheme's sponsoring employer has extensively considered the impact that climate risk has on its business within its own climate disclosures report and has developed a plan for managing its climate risk exposure over time. The Trustee has held several discussions with the Sponsor on its commitment in this area and the scenarios used in the respective modelling is considered broadly consistent in terms of the outcomes relative to the Paris Agreement targets.

In terms of next steps, the Trustee is focussing on partnering with a high-quality DM which invests a significant amount of resource in this area, both through its own industry wide initiatives and its engagement with investment managers. The alternative credit portfolio includes assets which have strong climate characteristics (e.g. Rivage, an infrastructure debt manager who invests substantially in projects related to renewable energy and who continues to look for further opportunities as the fund continues to draw capital). The DM continues to look for investment opportunities to access climate opportunities, for example the Asian green bond strategy mentioned previously. The Trustee also intends to continue to challenge its investment grade manager on its progress in relation to climate change.

The Trustee intends to update this analysis at least every three years and will be testing annually whether this needs to be done more frequently, including if there have been material changes to the scenarios used or the circumstances of the DB Section. The Trustee recognises that the development of climate scenarios is a relatively new process and anticipates that these will evolve in line with industry practice over time.

Section 4: Risk Management

The Trustee aims to deliver strong and robust investment returns over the long term, whilst contributing to a sustainable and resilient financial system. Having a robust framework for identifying, managing and mitigating climate risks enhances the prospects of better member outcomes. The Trustee thinks about how it integrates climate into its risk management processes in three ways:

1. Governance – DB Section and DC assets

The Trustee views climate change as a risk that interacts with other risks faced by the Scheme and believes that climate risks and long-term investment returns are interlinked – the physical impacts of climate change and the transformation of the global economy as it decarbonises are expected to materially impact investment risk and return.

The Trustee considers climate change risks and opportunities on a regular basis and is supported by the Scheme's Investment Consultant, WTW, in the process of identifying these. The Trustee delegated responsibility to the Risk & Administration Committee (RAC) for several functions relating to the oversight of risk management. This includes maintaining the Scheme's risk register, which is reviewed on a quarterly basis by the RAC and is designed to ensure that the risks the Scheme is exposed to are monitored on a regular basis, whilst newly emerging risks are identified. The risk register clearly details the size and likelihood of the risk, the controls in place and the actions the Trustee takes to manage, mitigate, and exploit both the risk and opportunity. Although the Trustee retains ultimate ownership, the risk register clearly sets out the parties that assist the Trustee in its responsibilities.

The RAC reports quarterly to the Trustee and will take actions and make recommendations where necessary. The Trustee firmly believes that climate change is a material risk that presents significant financial, environmental, and societal challenges. Since 2021, climate change has been discussed regularly by the IC, reflecting the Trustee's desire to manage the Scheme's exposure to climate change risk.

2. Top-down – DB Section

The climate change scenario analysis shown in the previous Section provides the Trustee with a holistic overview of the potential impacts of climate change and how they may affect the Scheme's strategy (across assets, liabilities, and covenant). This is an important risk management tool for a top-down risk and opportunity assessment.

3. Bottom-up – DB Section

The Trustee also conducts more granular analysis to manage the risks and opportunities associated with climate change. These include:

- **Security analysis** – As detailed in the next Section, the Trustee works with its Investment Consultant to calculate various climate metrics for the underlying securities within the portfolio. This includes metrics such as absolute carbon, weighted average carbon intensity and exposure to climate opportunities. These provide the Trustee with a more detailed understanding of the Scheme's asset exposures. The Scheme's investment managers also provide the Trustee with information on the ESG performance of the funds managed as and when required.
- **Manager analysis** – The DM provides the Trustee with periodic summaries of the ESG credentials of the underlying investment managers within the alternative credit mandate. The DM provides bespoke quarterly investment performance reporting to the Trustee and any ESG developments arising in relation to the underlying investment managers are highlighted, if relevant. The Trustee meets with the Scheme's investment grade credit manager on a biennial basis. As part of these meetings the Trustee typically seeks to explore several areas, including the managers' approach to ESG.

DB Section

There are several levers available to the Trustee to help manage the Scheme's climate risk exposure, which are expected to be addressed regularly by the IC and wider Trustee Board in the years to come.

- **Engagement** – The Trustee considers that efficient and proactive engagement as stewards of capital with the investment managers or companies they are invested in, is most likely to change behaviour and ultimately drive reductions in carbon emissions. Stewardship is one of the most powerful tools investors can use to influence companies to adapt their business approach to a low-carbon environment. The Trustee expects its investment managers to integrate climate change and other ESG factors at all steps of their investment analysis and decision-making processes. To the extent that specific concerns arise in respect of certain investment managers, then the Trustee will engage with the investment manager, and is ultimately willing to disinvest from mandates if deemed appropriate.

Engagement case study – investment grade credit manager

In 2022, the Scheme's investment grade credit manager engaged with one of the banks that the Scheme is exposed to in relation to their commitment to achieve net-zero carbon emissions by 2050. The manager noted that the bank's recent reporting only focused on reporting relative to interim targets and only on a limited number of sectors, without full disclosure of carbon emissions. Over 2022, the manager attended meetings with the bank and called for the bank to set a policy that aligns with the International Energy Agency's net-zero 2050 scenario. The manager will continue to monitor whether the bank will take the necessary steps to align the business to a 1.5 °C trajectory and to improve its disclosure of carbon emissions, in line with industry practice.

- **Mandate changes / design** – in addition to engagement, the Trustee either directly or via the DM will continue to review mandate guidelines, restrictions, and benchmarks, as well as implement any policies aimed at reducing emissions. The Trustee has specific restrictions or exclusions in investments in tobacco-related companies, investments in thermal coal, tar sands and controversial weapons within the Scheme's segregated credit mandates.

The DM continues to explore opportunities to add investments within the alternative credit mandate that would further improve the ESG characteristics of the portfolio, while also generating an attractive financial return. As such, in the second half of 2023, the DM has implemented a dedicated green bond fund.

Industry collaboration case study

The Scheme's investment grade credit manager is a member of Climate Action 100+, an investor coalition that is focused on ensuring that the world's largest corporate greenhouse emitters act on climate change. In 2021, the Scheme's investment manager co-led the engagement with one of the world's largest oil and gas company calling for more details and a clear articulation of their climate strategy. As a result of this engagement, the oil and gas company formally committed to becoming a net-zero company by 2050 and that they will halve the emissions intensity of all sold energy. More recently, the company-initiated projects in the US and UK to develop solar energy and launched offshore wind projects.

DC Section of the Scheme

The remaining investments within the DC Section of the Scheme are delegated to Prudential and invested in line with their strategy to support long term share of profit. Whilst the Trustee recognises that it has little control over the investment strategy of the with profits fund, it is reassured by the DC Manager's actions in relation to climate change, a summary of which is provided below:

- Net Zero: Prudential Assurance Company, the life company through which with-profits assets are held, is part of asset manager M&G plc and its climate risk activity aligns with that of the investment manager M&G's climate risk policies. M&G plc is a member of the Net-Zero Asset Owner Alliance (NZAOA), which it joined in 2021. M&G plc is committed to achieving net zero across its investment portfolios, including the With-Profits Fund, by 2050. For business operations, it has set near-term operational carbon reduction targets, aligned with the Paris Agreement. These include:
 - reducing Scope 1 & 2 (market-based) carbon emissions from our direct operations by 46% by 2030 from a 2019 baseline;
 - reducing Scope 3 business travel carbon emissions by 46% by 2030; and
 - engaging with suppliers to encourage them to set ambitious carbon reduction targets aligned with climate science, with an aim to cover a minimum of 67% of our Scope 3 supply chain emissions by 2030.
- Engaging on climate: M&G Investments co-leads active engagement with three companies on the Climate Action 100+ list of the world's largest corporate greenhouse gas emitters: BP, Rio Tinto and Samsung Electronics.
- Managing climate risks: M&G uses several methods to identify where investments are exposed to climate risk, including scenario analysis. These scenarios include physical risks like flooding, fire and extreme wind, and also the risks to companies as they change their business models to reduce carbon emissions. It models portfolio exposures and how they behave under different climate scenarios, and will extend this capability across its strategies, with regular updates. It also considers various connected ESG issues, and their impact on climate change.
- Thermal Coal position: In March 2021, M&G plc published its Position on Thermal Coal, including the commitment to reduce its exposure to thermal coal power generation, mining and other sectors with thermal coal-related operations without any technologies to substantially reduce CO2 emissions. This commitment to reduce exposure is by 2030 in developed countries and by 2040 in developing countries. M&G plc also joined the Powering Past Coal Alliance, a coalition of countries, cities, regions and organisations aiming to accelerate the coal phase out, in March 2021. Prudential Assurance Company's (PACs) Asset Owner Thermal Coal Position has existed since 2020 and was reviewed in 2021 in order to meet the requirements of the Powering Past Coal Alliance and M&G plc's position. PAC's Thermal Coal Position applies to publicly listed assets and property. Where companies fail its coal screening, it prefers to engage to phase out coal, but where engagement is unsuccessful or considered unlikely to succeed, it may exclude some companies from its portfolios. Initial exclusions and engagements commenced in 2021, with additional exclusions implemented over 2022.
- Positive action: In January 2021, PAC asked M&G Investments to invest £5 billion from the With-Profits Fund into private companies which are trying to solve some of the world's biggest environmental and social challenges. In its first two years, the team behind the strategy has deployed or committed over £2.4 billion to 50 companies, including emerging sectors such as carbon capture and storage, clean transport, recycling, and sustainable housing, and in breakthrough innovations in health and biotechnology.

Section 5: Metrics & Targets

DB Section

The Trustee has set a climate-related target to aid with monitoring how efficiently climate risk is being managed across the Scheme over time. Specifically, the Scheme has set an Implied Temperature Rise (ITR) target of 2040 of 1.5°C. The Trustee calculates a range of climate metrics that will be monitored on an annual basis through future publications of this report. The table below sets out the chosen climate metrics:

Metric	Definition
Absolute emissions	<p><u>Total Carbon Emissions (tCO₂e):</u></p> <p>This is an “absolute” metric providing an estimate of the total carbon emissions attributable to the Scheme’s assets. To compile the figure, the Trustee has used MSCI data for direct and indirect (Scope 1 and 2) emissions associated with each company the Scheme invests in where available. Where this information is not available, emissions have been estimated based on the country and industry sector of the company/asset in question. Although this latter approach is naturally more approximate, it does allow the Trustee to produce an emissions figure that encompasses the Scheme’s entire credit portfolio rather than only a proportion of it.</p>
Weighted Average Carbon Intensity	<p><u>Weighted Average Carbon Intensity (tCO₂e / £M sales * portfolio weights):</u></p> <p>This is an ‘emissions intensity’ metric which provides a measure of the efficiency of output and calculates the carbon emissions of a company per unit of revenue generated and weights this by portfolio holding. This calculation provides a figure that is useful for peer comparison. The Trustee has elected to use WACI as its intensity metric to align with the approach taken by the Sponsor.</p>
Portfolio alignment metric	<p><u>Implied Temperature Rise (degrees Celsius):</u></p> <p>This is a forward-looking measure of the extent to which a portfolio is aligned with the Paris Agreement target of restricting global warming to well below 2 degrees Celsius, with efforts to limit the increase to 1.5°C. This metric calculates the temperature rise associated from holding a portfolio of assets by considering the net zero commitments or carbon emissions trajectories of the underlying investee companies within the portfolio.</p>
Additional non-emissions based metric	<p><u>Percentage of the portfolio invested in climate-related opportunities:</u></p> <p>Climate opportunities are determined based on companies that may be considered EU Taxonomy eligible based on the criteria set out in the taxonomy (which provides a minimum standard across sustainability disclosure requirements and puts some rigour around what investments can be considered sustainable).</p> <p>This is a measure of the portfolio’s exposure to investments which are more likely to benefit from the transition to a low carbon economy, and therefore helps to provides a balance of the risks and opportunities presented by the transition to a low carbon global economy with the potential to enhance investment returns through investment in such assets. Examples for this include assets that reduce the carbon intensity of an existing activity or process directly remove carbon from the atmosphere or substitute an existing activity or process for a lower or zero carbon alternative.</p>

The metrics above have been selected in accordance with the TCFD framework. A key facet of the Trustee’s ongoing monitoring and management of climate change is relying on having good data on the Scheme’s exposure in this area. The TCFD reporting framework requires the Trustee to define the scope of the emissions monitored, which are as follows:

- Scope 1 emissions: all direct emissions from the activities of an entity or the activities under its control
- Scope 2 emissions: indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses.
- Scope 3 emissions: all indirect emissions from the activities of the entity, other than scope 2 emissions, which occur from sources that the entity does not directly control.

For the purposes of this initial report the Trustee has calculated the climate metrics based on Scope 1 and Scope 2 emissions. In future, with expected improvements in data availability and accuracy, the Trustee will also look to include Scope 3 emissions and incorporate them into future analysis.

The data for the climate metrics has been collated using a combination of manager-provided data, proxied data based on sector/geographical breakdowns, and relevant benchmark data. This data is then uploaded into the Investment Consultant's ESG tool (which uses MSCI underlying data) to determine the carbon related metrics that the Scheme is required to report. As data coverage and quality both improve, the Trustee will look to leverage any data sources that become available into the calculation of these climate metrics.

Whilst the analysis undertaken is intended to cover the level of emissions associated with the Scheme's asset portfolio as accurately as possible, this is a rapidly developing area, which currently gives rise to several limitations:

- Data limitations: The quality and breadth of data is lower for smaller companies and the coverage across different asset classes varies significantly. The quality of data is typically weaker for private companies and within illiquid mandates. For some funds within the Scheme's alternative credit portfolio, certain proxies have been used based on sectoral and geographical exposures.
- Estimation and subjectivity involved: It is important to note that some of the climate metrics calculations are based on estimates and/or subjective judgements made by data providers. In particular, the calculation of the Implied Temperature Rise is based on a range of assumptions used by MSCI. Different data providers may use alternative methodologies and assumptions that would lead to different results.
- Treatment of government bonds: The Trustee has agreed to exclude the Scheme's LDI portfolio from the Scheme's reported target. The rationale for the current exclusion of UK Government Bonds (LDI) from the Scheme's target is as follows:
 - The Trustee primarily holds UK gilts as assets to hedge the Scheme's liabilities and as such, even if reducing exposure to these assets would lead to an overall improvement in climate metrics, it would open the Scheme up to excessive funding and investment risk.
 - The Trustee recognises that it has limited capacity and capability to engage with the UK Government on climate related metrics.
 - The level of financial risk arising from these assets is perceived to be much smaller i.e., the influence of climate change on the price of UK Government Bonds in comparison to the other assets held is likely to be lower.

Over time, the Trustee expects methodologies to evolve and industry standards to emerge to reflect improvements in data coverage. This is expected to result in some year-on-year fluctuations within the calculation of certain climate metrics. As data improves, the Trustee will thus monitor trends arising from the calculation of the climate metrics.

Climate metrics analysis as at 31 December 2022

The table below summarises the results of the climate analysis undertaken in respect of the Scope 1 and 2 emissions of the DB Section of the Scheme's asset portfolio as of 31 December 2022.

The Bupa Pension Scheme	Non LDI Assets
Total Carbon Emissions ("tCO ₂ e")	61,478
Weighted Average Carbon Intensity (tCO ₂ e / £M sales * portfolio weights)	164
Implied Temperature Rise	1.7 Degree Celsius
Percentage of the portfolio invested in climate-related opportunities	10.3%

Whilst the Trustee has opted not to include its government bond assets in the target or overall metrics given the limitations outlined above, it is not ignoring these assets and the related figures for this part of the portfolio are shown below, as calculated by the LDI Manager BlackRock as at 31 December 2022.

The Bupa Pension Scheme	LDI
Total Carbon Emissions ("tCO ₂ e")	118,000
Weighted Average Carbon Intensity (tCO ₂ e / £M sales * portfolio weights)	201
Implied Temperature Rise	2.8 Degree Celsius
Percentage of the portfolio invested in climate-related opportunities	Information not provided

As referenced above, the Trustee has identified ITR as the primary metric to use in setting a target for the Scheme. As such, the Trustee target is alignment with a 1.5°C Implied Temperature Rise by 2040 across the Scheme assets. This will be measured from a baseline year of 2022, and the Trustee intends to report progress against this objective in next year's report. As previously mentioned, the Trustee has agreed to exclude the Scheme's LDI portfolio from the Scheme's target.

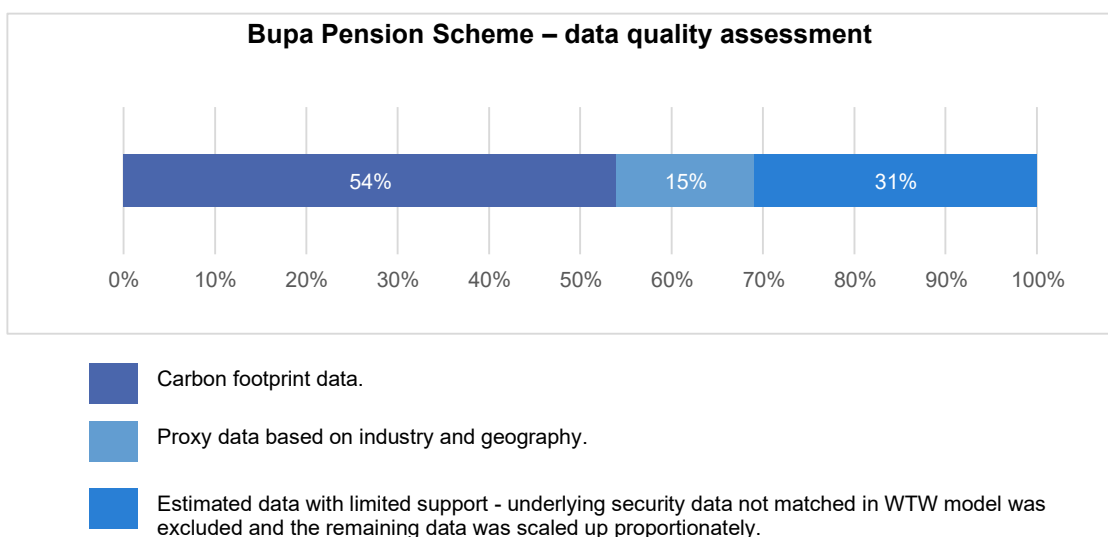
Compared to the end of 2021, the Scheme's Implied Temperature Rise has fallen from 2.1 degree to 1.7 degree Celsius. The majority of this reduction is due to a change in the calculation methodology from MSCI. Looking forward, MSCI is currently in the process of instituting another series of refinements to their assessment model. Given these ongoing model refinements, it is expected that the Scheme's ITR metric could undergo further variations in the coming years.

The Trustee is continuing to monitor the evolving climate measurement landscape with the expectation that the robustness of the metrics will improve over time. The Trustee looks forward to sharing updates on its progress in monitoring and managing climate risks and opportunities over time.

Data quality

Whilst the Trustee has aimed to carry out the analysis as far as it is able, the availability of data is dependent on external factors which are largely outside of the Trustee's control, such as certain companies not disclosing their GHG emissions.

In calculating absolute emissions and emission intensity, the Trustee was able to obtain data covering 54% of the Scheme's asset portfolio (excluding liability driven investments) as of 31 December 2022. For the private assets the Scheme's Investment Consultant has proxied the exposure by using appropriate geographic and sector weights for the underlying holdings. This represents 15% of the total portfolio. The emissions metrics analysis is based upon MSCI's data, which is undertaken on a company-by-company basis using MSCI's Company Specific Intensity Model which will primarily use direct emissions data, but also estimates (using industry averages) where required. MSCI is a market leader in terms of their ESG research and reporting quality. CO₂e represents a single unit of measurement for total greenhouse gas emissions (often referred to as CO₂ and equivalents) and includes the seven gases mandated under the Kyoto protocol. The Trustee will seek to improve the quality of data in each succeeding analysis. The chart below provides an overview of the data used by WTW in calculating the climate metrics for the Scheme's non LDI assets as at 31 December 2022.



Looking forward

Climate change presents a financially material risk to the Scheme as well as society. The Trustee believes that acting now to reduce exposure to carbon emissions over time will improve investment outcomes for the Scheme and help reduce the impact of future climate risks. The Trustee is continuing to monitor the evolving climate measurement landscape with the expectation that the robustness of the metrics will improve over time. This may mean that the metrics reported in this report may worsen as data quality improves and the calculation methodologies of certain metrics evolve. The Trustee looks forward to sharing updates on its progress in monitoring and managing climate risks and opportunities over time.

Section 6: Appendix

Glossary

Absolute Emissions	The total emissions attributable to the relevant portion of the Scheme's assets
Emission Intensity	The weighted average carbon intensity (tCO ₂ e / £M sales * portfolio weights)
CO₂e	Carbon dioxide emissions or equivalent.
ESG	Environment, Social and Governance
Net Zero	The position of removing as many greenhouse gases as are emitted
Physical Risk	The direct effects of climate change on the Scheme and its members
Transition Risk	Risks and opportunities arising from efforts made to transition towards a net-zero economy (both domestically and globally) to limit climate change
Portfolio Alignment	The percentage of the portfolio aligned with a particular net-zero initiative
Responsible Investment	Making investment decisions and engaging with companies in order to encourage a positive impact on the world
Scope 1 Emissions	Direct emissions from a company's owned or controlled sources. This may include emissions from a firm's manufacturing processes or emissions from company vehicles
Scope 2 Emissions	Indirect emission from the generation of purchased energy, such as heating for company facilities.
Scope 3 Emissions	All other indirect emission, including those of suppliers and customers. These may include emissions related to the transportation and distribution of goods and disposal of waste generated in operations.