

## Annual governance statement by the Trustee Directors of The Bupa Pension Scheme - Bupa Pension Scheme Trustees Limited (BPST Ltd.)

### Introduction

This statement is being made by the Trustee Directors of Bupa Pension Scheme Trustees Ltd ('the Trustee or Trustees'), in order to demonstrate how The Bupa Pension Scheme ('the Scheme') has complied with the governance standards introduced under The Occupational Pension Scheme (Charges and Governance) Regulations 2015. The regulations require that all relevant Occupational Trust Based Pensions Schemes, which offer money purchase benefits, must produce an annual governance statement, to be included in the annual report, demonstrating how the governance standards relating to the Scheme's money purchase arrangements have been met.

This statement covers the period from 1 July 2021 to 30 June 2022, the Scheme year-end.

During this period, the Scheme had the following money purchase arrangements, collectively referred to for the purposes of this statement as 'the DC Section':

- A legacy Money Purchase (MP) section.
- Final salary section additional voluntary contributions ('AVCs')

During the previous Scheme year, all of the Bupa Retirement Savings Plan's (BRSP's) Money Purchase assets and AVCs assets held with Scottish Widows were transferred to a new master trust arrangement. No further contributions have been paid into the Scheme since 1 January 2021, when all future contributions were redirected into the new master trust.

Additional asset transfers to the master trust took place during the 2021 to 2022 Scheme year, to remove further legacy Money Purchase section assets and final salary AVCs assets that were held with Aegon, Prudential and Utmost.

As of 30 June 2022, the Scheme year-end, the remaining DC Section assets comprise:

- Prudential With-profits Fund (both Money Purchase and AVCs)
- Prudential Discretionary Fund (Money Purchase)
- Utmost Money Market Fund (Money Purchase)
- Aviva With-profits Fund and other unit-linked funds (Money Purchase)

Except for the assets in the Prudential With-profits Fund, the other policies relate to members with a GMP underpin linked to the DB Section. The Trustee intends to convert these Money Purchase assets to DB liabilities in due course, hence leaving only the Prudential With-profits Fund assets in the DC Section thereafter.

As in previous years, the Trustee has reviewed and assessed its systems and controls in place during the Scheme year. The Trustee believes that it has adopted the standards of practice set out in The Pensions Regulator's DC Code of Practice and DC Regulatory Guidance. These help demonstrate the presence of the DC quality features, which we believe have helped deliver good outcomes for members at retirement.

### 1. Investment strategy

#### Default investment strategy

The DC Section does not have a default investment strategy as it is not used as a qualifying scheme for automatic-enrolment purposes. However, three funds – the Utmost Money Market Fund, the Aviva My Future Consolidation Fund, and the Aviva Pension Lifestyle 2030 Fund - are considered as default funds for the purpose of this statement, as explained below.

#### Utmost Money Market Fund

Equitable Life approached the Trustee in early 2019 with a proposal to exchange the guarantees within the with-profits fund for enhanced fund values. The Trustee was invited to vote on the proposal in late 2019. In preparation for the vote the Trustee engaged their investment consultant, Willis Towers Watson, to perform an analysis of the Equitable Life membership. Based on the outcome of the analysis, the Trustee agreed to the proposal. The vote was carried, and all Equitable Life members were transferred to Utmost. Those members with investments in the with profits fund

were automatically transferred to the Utmost Secure Cash Fund. Following advice from Willis Towers Watson these members were transitioned to the Utmost Money Market Fund during Q3 and Q4 2020. As a result of this, the Money Market Fund is a default investment option for the purposes of regulatory governance. The member charge for this fund is well below the regulatory charge cap and it is subject to the other DC investment policies detailed in this document.

#### *Aviva My Future Consolidation Fund and Aviva Pension Lifestyle 2030 Fund*

In August 2019 Aviva closed three of its existing lifestyle funds and transferred members' assets to alternative options. This action by Aviva also created two additional defaults, namely the Aviva My Future Consolidation Fund and the Aviva Pension Lifestyle 2030 Fund. The member charge for these funds is well below the regulatory charge cap and they are subject to the other DC investment policies detailed in this document.

#### Net Investment Performance

The Trustee is required to report on the net investment returns for the DC Section funds in which members have held assets during the Scheme year.

The tables below therefore show investment performance data in respect of all DC Section funds over the Scheme year. As at the Scheme year end (30 June 2022) only those funds shown in **bold** remained in the Scheme, following the transfers of assets during the year.

When preparing this section, the Trustee has taken account of the DWP's statutory guidance on "Completing the annual Value for Members assessment and Reporting of Net Investment Returns".

#### *Unit-linked funds*

The figures for unit-linked funds in the table below are based on those issued by the different providers (Aviva, Aegon, Utmost and Prudential) over the past five years to 30 June 2022 and are on an annualised basis, net of standard charges.

<b>Provider</b>	<b>Fund Name</b>	<b>1 year % p.a.</b>	<b>3 years % p.a.</b>	<b>5 years % p.a.</b>
Aviva (formerly Friends Life / Axa)	<b>Reserve Fund</b>	(4.98)	0.28	1.22
	<b>Managed Fund</b>	(2.12)	2.83	3.22
	<b>My Future Consolidation Fund*</b>	(6.51)	0.49	1.07
	<b>Lifestyle Retirement 2030 Fund*</b>	(1.96)	2.49	3.35
	<b>Lifestyle Retirement 2035 Fund</b>	(1.99)	2.82	3.54
	<b>Lifestyle Retirement 2040 Fund</b>	(1.97)	2.82	3.53
AEGON	Mixed Fund	(8.30)	4.30	4.50
	American	(1.30)	10.80	11.10
Utmost (formerly Equitable Life)	<b>Money Market*</b>	(0.23)	(0.14)	(0.03)
	Managed	(1.98)	2.38	3.19
Prudential	<b>Discretionary</b>	(6.30)	2.80	3.80
	Fixed Interest	(13.20)	(2.90)	(0.40)

\* These funds are considered as default funds for the purposes of this statement, noting that the DC Section does not have a default investment strategy as it is not used as a qualifying scheme for automatic-enrolment purposes.

#### *With-profits funds*

With-profits funds work in a different way, with smoothed investment returns and the allocation of annual bonuses. The figures for With-profits funds in the tables below are based on those issued by the different providers (Aviva, Aegon,

and Prudential) for the one, three and five calendar years to the dates shown. These show the net return of the underlying assets without smoothing, as well as the average annual bonus rate over the corresponding period.

Provider	Fund Name		1 year % p.a.	3 years % p.a.	5 years % p.a.
Aviva (formerly Friends Life / Axa)	With Profits	Net return* (period to 31 December 2021)	9.00	6.75	4.82
		Annual bonus rate	3.25	**	**
AEGON	With Profits	Net return (period to 31 August 2022)	(6.00)	3.30	3.60
		Annual bonus rate (period to 31 March 2022)	2.00	1.75	1.95
Prudential	With Profits	Net return* (period to 31 December 2021)	11.00	7.29	5.37
		Annual bonus rate (period to 15 March 2022)	1.00	1.17	1.20

\* Assumes a 1% annual charge and the figures quoted coincide with the calendar year performance announced by the providers

\*\* The Trustee has requested this data from Aviva; however, despite best endeavours, Aviva has been unable to provide this information in the required timescale for this statement

### Statement of Investment Principles

The Trustee prepares and keeps under review a Statement of Investment Principles (SIP) that describes its investment policy for the Scheme, including the DC Section, covering such matters as the investment objectives and strategy for the Scheme, risk controls and the selection and monitoring of investment managers.

The SIP was last reviewed and updated in October 2022, and a copy of the SIP in place during the Scheme year is attached as an Appendix to this annual governance statement.

### Trustee review

With the support of its investment adviser, the Trustee reviews the performance of all funds, including those considered to be a default, on an annual basis to ensure the performance remains in line with expectations.

The Trustee understands the security of assets position of the funds, and all current funds are expected to be covered under the Financial Services Compensation Scheme (FSCS) in the event of provider default.

The Trustee considered whether to surrender and transfer the Prudential With-Profits Fund to the new master trust. However, the Trustee concluded that while some elements of the master trust would have provided these members with better value, the advice received was that future investment return expectations meant it was not in members' financial interests to transfer these funds at the time.

The Trustee has accepted that by retaining these assets in the Scheme, it has little control over them. However, the with-profits performance and fund features continue to be strong relative to its peers, and, on balance, given the level of governance and oversight by the Trustee of the Scheme as a whole, it is considered that these members receive fair value for their membership.

The other remaining assets relate to members with a GMP underpin, which will be converted to defined benefit liabilities in due course. The Trustee is therefore maintaining these assets (held with Prudential, Aviva and Utmost) until such time as they are converted.

## **2. Charges and transaction costs paid by members**

### The level of annual charges and transaction costs

The Trustee is required to set out the on-going charges borne by members in this statement, which are annual fund management charges plus any additional fund expenses, such as custody costs, and transaction costs. Charges are paid by members and reflected in the unit prices.

When preparing this section of the statement, the Trustee has taken account of the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes".

Charges borne by members, together with transaction costs, can have a significant impact on member benefits.

Where information about member borne costs and charges is not available, the Trustee has to provide an explanation of what steps are being taken to obtain the missing information.

Transaction costs and gains are those incurred by fund managers as a result of buying, selling, lending, or borrowing investments. These costs are allowed for within the unit price for each of the funds. In 2017, the Financial Conduct Authority (FCA) published its policy on how asset managers must disclose transaction costs and administration charges. The DWP subsequently amended the Regulations and its guidance on how trustees of occupational pension schemes should disclose those costs in the annual governance statement.

Transaction costs arise as an integral feature of the investment approach taken by the fund managers and, over time, it is expected that the management approach should provide better investment outcomes for members.

The table below shows the annual charges and total transaction costs incurred by each investment fund during the year to 30 June 2022. This information has been provided by Aviva, Aegon, Utmost and Prudential.

As per net investment performance we have included charges and transaction cost data in respect of all investment funds that were held in the Scheme during the year. As at the Scheme year end (30 June 2022) only those funds shown in **bold** remained in the Scheme, following the transfers of assets during the year.

Provider	Fund Name	AMC %	Transaction Costs %	Total Costs %
Aviva (formerly Friends Life / Axa)	<b>With Profits</b>	0.45	0.03	0.48
	<b>Reserve Fund</b>	0.45	0.05	0.50
	<b>Managed Fund</b>	0.45	0.09	0.54
	<b>My Future Consolidation Fund</b>	0.45	0.07	0.52
	<b>Lifestyle Retirement 2030 Fund</b>	0.45	0.14	0.59
	<b>Lifestyle Retirement 2035 Fund</b>	0.45	0.18	0.63
	<b>Lifestyle Retirement 2040 Fund</b>	0.45	0.18	0.63
AEGON	With Profits	1.00	0.09	1.09
	Mixed Fund	1.03	0.14	1.17
	American	1.01	0.02	1.03
Utmost (formerly Equitable Life)	<b>Money Market</b>	0.50	0.00	0.50
	Managed	0.75	0.01	0.76
Prudential	<b>With Profits</b>	N/A	0.08**	0.08
	<b>Discretionary</b>	0.75	0.08**	0.83
	Fixed Interest	0.75	(0.01)**	0.74

\*\* The transaction cost shown is the % average of up to last 5 years to 30 June 2022.

#### The impact of the annual charges and transaction costs

Over a period of time, the charges and transaction costs that are taken out of a member's pension savings can reduce the amount available to the member at retirement. The Trustee has set out in the Appendix to this statement illustrations of the impact of charges and transaction costs on different investment options in the Scheme. The illustrations have been prepared in accordance with the DWP's statutory guidance on "Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes" on the projection of an example member's pension savings.

As each member has a different amount of savings within the Scheme and the amount of any future investment returns and future costs and charges cannot be known in advance, the Trustee has had to make a number of assumptions about what these might be. These assumptions are explained in the Appendix.

### 3. Value for members

When assessing the charges and transaction costs which are payable by members, the Trustee is required to consider the extent to which the investment options and benefits offered by the Scheme represent good value for members.

Whilst it is difficult to give a precise definition of 'good value', the Code of Practice 13 includes a legal obligation to carry out a 'Value for Members' assessment on an annual basis which must include:

- Assessing the value of those services and features that members pay for, or where members share the cost with the employer.
- Calculate the charges and, insofar as they are able to, transaction costs (incurred as a result of buying, selling, lending, or borrowing investments), to which members' funds are subject; and to assess the extent to which they represent good value for members.

The Trustee recognises that the assets remaining in the Scheme have additional benefits and/or guarantees attached to them, which makes it harder to assess the value for members.

However, in carrying out its assessment, the Trustee has taken into account:

- advice from its professional advisors
- the size and nature of the remaining assets
- its previous conclusion, as part of the 2021 move to a new master trust for the main scheme assets, that while Prudential with-profits members may receive a better overall experience by moving to the master trust, future investment return expectations meant it was not in members' financial interests to transfer these funds at the time
- its wider governance and oversight of the Scheme.

#### Results of the assessment

Below is a summary of the results for the Scheme, in the core areas of charges, governance and management, investment, administration and communications. Charges are only considered in the Value for Members category, and not the Broader Value. Where services were paid for entirely by the Trustee/Employer, these do not need to form part of the assessment for Value for Members but fall into the category of 'Broader Value'. (As the Scheme is 'unbundled' this includes Scheme governance and management, administration and communications).

	Benefits and services category		Paid for by	Value for Members	Broader Value
1	Charges		Members		
2	Scheme governance and management		Trustee/Employer		
3	Investment	Both			
4	Administration	Trustee/Employer			
5	Communications	Trustee/Employer			

Key:							
Significant strength		Strength		Sufficient		Weakness	

## **Core financial transactions**

The Trustee is required to give details of the processes and controls in place in relation to the “core financial transactions”. As no new contributions are being paid, these are mainly limited to:

- Transferring assets related to members into or out of the DC Section;
- Making payments from the DC Section to or on behalf of members;
- Implementing investment switches requested by members.

These transactions are principally undertaken on behalf of the Trustee by the in-house Bupa Pensions Team, who liaise with the relevant provider (Prudential, Aviva or Utmost) as and when a member chooses to retire, transfers their benefits out of the Scheme into another pension arrangement, or wishes to make an investment change. Requests to transfer out or make investment switches are limited in frequency, due to the nature of the investments (with-profits and/or with a GMP underpin).

The Trustee receives quarterly reports from the Bupa Pensions Team setting out the core financial transactions that have taken place, as well as Service Level Agreement (SLA) reporting.

The Trustee is satisfied that over the period covered by this statement:

- The Bupa Pensions Team has operated appropriate procedures, checks and controls in relation to the processing of core financial transactions;
- There have been no material administration errors in relation to core financial transactions;
- All core financial transactions have been processed promptly and accurately during the Scheme year.

## **Trustee knowledge and understanding**

The law requires the Trustee to possess and maintain, or have access to, sufficient knowledge and understanding to run the Scheme effectively. Each Trustee Director must:

- Be conversant with the trust deed and rules of the Scheme, the Scheme's SIP and any other document recording policy for the time being adopted by the Trustee relating to the administration of the Scheme generally,
- Have, to the degree that is appropriate for the purposes of enabling the individual properly to exercise his or her functions as trustee, knowledge and understanding of the law relating to pensions and trusts and the principles relating to investing the assets of occupational pension schemes.

In order to monitor this requirement, the Trustee holds a record of the training completed by each member of the Trustee Board.

This training record is reviewed at each quarterly Trustee meeting to identify any gaps in the knowledge and understanding across the Trustee as a whole. Any gaps are addressed, and training provided as appropriate.

Examples of topical Trustee training activities provided throughout the year, which have improved effectiveness are:

- The revised Single Code of Practice – October 2021
- Notifiable events – October 2021
- Competition and Markets Authority (CMA) objectives – December 2021
- Conflicts of interest – April 2022
- Rising inflation – April 2022
- Effective System of Governance (ESOG) – May 2022
- Task Force on Climate-Related Financial Disclosures (TCFD) – May 2022

All of the Trustee Directors have either completed the relevant modules of the Trustee Toolkit made available by the Pensions Regulator or have equivalent experience as part of their job role or professional qualifications. Newly appointed Trustee Directors are expected to complete the Trustee Toolkit and have formal induction training within six months of joining the Trustee Board.

The training, and associated professional advice, is aligned with the Trustee's annual business plan and the specific circumstances of the Scheme and its governing documents, such that it supports effective decision making on specific issues. The Trustee completed its latest effectiveness review in October 2021, focusing on general Board Effectiveness, Behaviours and Trustee Knowledge and Understanding. This effectiveness review was undertaken by the Bupa Pensions Team issuing a questionnaire to all Trustee Directors and analysing the results, both on an individual basis for each Director and also collectively for the Board as a whole.

The Trustee has discussed the results of the assessment and will monitor future assessments for any trends and areas for improvement.

The Trustee has appointed actuarial, investment, legal, audit and general pension advisers to assist in running the Scheme. At least one of these advisers attends all Trustee and sub-committee meetings and are also available to provide ongoing support and advice. Advisers are assessed on an ongoing basis.

As a result of the professional expertise and knowledge of the Trustee Directors individually (particularly those Trustee Directors with a financial and investment background) and collectively as a Board, and taking into account the training activities undertaken and the professional advice available to the Trustee, I am confident that the combined knowledge and understanding of the Board enables us to exercise properly our function as the Trustee of The Bupa Pension Scheme.

Arthur D Walford

Chairman of Bupa Pension Scheme Trustees Ltd

Date: 30 January 2023

## Appendix – The impact of the annual charges and transaction costs

The illustrations below provide an indication of how, over time, the annual charges and transaction costs may impact a member's benefits.

Separate illustrations are given for the remaining providers Prudential and Utmost. Aviva has been unable to provide the necessary data, despite the Trustee's best endeavours to obtain this information. Details of the assumptions that apply can be found under the illustration for each provider.

Note that in all cases, the illustrations are estimates and cannot be guaranteed. Furthermore, they do not show the likely variance and volatility of outcomes. Projected values are rounded to the nearest £10.

The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.

### Prudential

#### *With-profits cash accumulation fund*

This is the Prudential fund in which most members are invested, and which has the highest projected growth rate.

Projected pension pot values are in today's money which means they have been adjusted for inflation. We have used:

- A starting pot size of £6,000
- No future contributions are paid
- The term of the investment is from age 38 to age 65

End of year	Prudential With-profits fund	
	Before charges	After all charges + costs
1	£6,200	£6,180
5	£7,090	£6,970
10	£8,370	£8,110
15	£9,900	£9,430
20	£11,600	£10,900
25	£13,800	£12,700
27	£14,700	£13,200

#### Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Retirement is assumed to be at age 65
3. Inflation is assumed to be 2.5% each year.
4. Values shown are estimates and are not guaranteed.
5. The projected growth rate is 3.48% a year
6. The assumed charge is 0.39% a year

#### *Discretionary fund*

This is the Prudential fund which has the highest charges. Only one member remained invested in this fund at the end of the Scheme year.

Projected pension pot values are in today's money which means they have been adjusted for inflation. We have used:

- A starting pot size of £6,000
- No future contributions are paid
- The term of the investment is from age 38 to age 65



End of year	Prudential With-Profits fund	
	Before charges	After all charges + costs
1	£6,170	£6,120
5	£6,950	£6,660
10	£8,050	£7,410
15	£9,340	£8,230
20	£10,800	£9,150
25	£12,500	£10,100
27	£13,300	£10,600

#### Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Retirement is assumed to be at age 65
3. Inflation is assumed to be 2.5% each year.
4. Values shown are estimates and are not guaranteed.
5. The projected growth rate is 3.07% a year
6. The assumed charge is 0.84% a year

#### Utmost

Projected pension pot values are in today's money which means they have been adjusted for inflation. We have used:

- A starting pot size of £24,000
- No future contributions are paid
- The term of the investment is from age 25 to age 65

End of year	Utmost money market fund	
	Before charges	After all charges + costs
1	£23,470	£23,350
3	£22,460	£22,100
5	£21,480	£20,950
10	£19,220	£18,260
15	£17,210	£15,940
20	£15,410	£13,920
25	£13,780	£12,140
30	£12,340	£10,580
35	£11,040	£9,240
40	£9,890	£8,060

#### Notes

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Retirement is assumed to be at age 65
3. Inflation is assumed to be 2.5% each year.
4. Values shown are estimates and are not guaranteed.
5. The projected growth rate is 0.25% a year
6. The assumed charge is 0.5% a year