Implementation statement

Introduction and summary.

This document is the Annual Implementation Statement (the "Statement") prepared by the Trustee of the Bupa Pension Scheme (the "Scheme") covering the year ended from 1 July 2021 to 30 June 2022 ("the Scheme Year") in relation to the Trustee's Statement of Investment Principles ("SIP").

The purpose of this statement is to:
- set out the extent to which, in the opinion of the Trustee, the Scheme's Statement of Investment Principles required under section 35 of the Pensions Act 1995 has been followed during the Scheme Year;
- detail any reviews of the SIP the Trustee has undertaken, and any changes made to the SIP over the Scheme Year as a result of the review;
- where relevant, describe the voting behaviour by, or on behalf of, the Trustee over the Scheme Year.

A copy of this implementation statement is made available on the following website:

https://www.ourbupa.co.uk/sites/peopleplace/PeoplePlaceDocuments/Pension/Historic%20schemes%20The%20Bupa%20Pension%20Scheme.pdf

The Scheme makes use of a wide range of investments. Therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact.

The Trustee Directors consider that all SIP policies and principles were adhered to over the Scheme Year.

SIP reviews and changes over the year

The SIP was reviewed and updated during the Scheme Year. The main changes to the SIP from the previous version were to reflect the change in the Scheme's governance arrangements. A summary of the key changes is provided below:

- **DC Section**: Following the transfer of the main DC Section to Master Trust, only legacy money purchase (MP) and Additional Voluntary Contributions (AVCs) remained in the DC Section. As such, the Trustee's policies in relation to the management and oversight of the DC Section were amended. The Trustee recognises that it has limited control over these assets and has therefore adopted a commensurate monitoring and risk management framework.
- **DB Section**: The DB Section was amended to reflect that the Scheme has now closed to future accrual and changes were made in relation to the Trustee's appointment of a Delegated Manager for a proportion of the Scheme's assets.

The relevant version of the SIP referred to henceforth within this Statement is dated October 2021.

Adherence to the SIP

The SIP comprises the following sections:
- Introduction / Background on regulatory environment
  - Pensions Act (paragraphs 1-4)
  - Financial Services and Markets Act 2000 (paragraph 5)
  - Scheme Background (paragraphs 6-9)
- DB Section
  - Objectives: DB Section (paragraphs 10-11)
  - Scheme Specific Funding (paragraphs 12-15)
  - Investment Strategy (paragraphs 16-24)
- Other matters
  - Liquidity and diversification (paragraphs 25-26)
  - Asset manager policy (paragraphs (27-33)
  - Responsible investing, stewardship and sustainability (paragraphs 34-39)
  - Performance Objectives and Investment Return (paragraph 40)
  - Risk management (paragraph 41)

- DC Assets
  - Remaining DC assets (paragraphs 42-44)
  - Monitoring (paragraphs 45-47)
- Appendix 1
  - Roles and Responsibilities

The Trustee Directors consider that all SIP policies and principles were adhered to over the Scheme Year. Below we comment on each of these sections and how the Trustee has implemented the principles within each one.

Introduction/ regulatory background

1-9 – These paragraphs provide background information on the relevant regulatory framework (Pension Act and FSMA 2000) under which the Scheme and the Trustee operates, and how the Trustee has followed the relevant requirements in developing its SIP and organising its investment arrangements.

DB Section

10-11 – These paragraphs set out the investment objectives for the DB section. The Trustee is satisfied that the objectives as set out in this section of the SIP have been followed. In particular, with regard to the DB section, the Trustee is satisfied that:

- the Scheme remained on track to meet its long-term funding objective.
- investment risk relative to the Scheme's liabilities was monitored by the Trustee on a quarterly basis and maintained well within the upper limits set by the Trustee.
- long term costs were managed by restricting the use of active management to areas where the Trustee believes it can add value, namely the alternative credit portfolio, which comprises approximately one-fifth to one-quarter of the Scheme's assets. In addition, income yield from the Scheme's assets was used to pay member benefits to avoid the unnecessary trading of assets.

12-15 – The Trustee typically reviews the SIP annually (or following any material change to the Scheme's circumstances) to ensure that the policies contained within it remain consistent with the Statement of Funding Principles. The Trustee last considered this when the SIP was updated in October 2021 and confirmed that the principles remained appropriate. During the Scheme Year, the Scheme's investments were managed in a manner consistent with the objective of the secondary funding objective, the Long-Term Funding Target (LTFT).

16 – This paragraph is a statement of fact rather than setting out any policies. The Trustee regularly monitors the performance of the Scheme's investment strategy relative to its long-term objectives. This was done on a quarterly basis during the Scheme Year.

17 – The Trustee believes that considering sustainability in its investments can lead to better outcomes over the long-term. In particular, the Trustee has excluded investments in tobacco-related companies in both of its segregated credit mandates with Legal and General Investment Management and JP Morgan. During the Scheme Year, the Trustee worked with Legal and General to implement additional limits or exclusions in relation to investments in thermal coal, tar sands and controversial weapons. Sustainable investment factors have also been taken into consideration within the delegated alternative credit mandate (through the use of exclusions, e.g., Fallen Angels, or investments with strong ESG characteristics, e.g. social infrastructure with Rivage).

18 – Over the Scheme Year the Trustee, with assistance from its investment adviser, WTW, monitored the portfolio's risk/return characteristics, liability and currency hedging characteristics and solvency capital charge on a quarterly basis relative to their respective acceptable tolerance ranges. There were no breaches to the agreed risk management metrics and the portfolio's target return remained consistent with the long-term objective.

19 – The Scheme's liability profile is updated on a triennial basis following agreement of the Scheme's actuarial valuations, and the Scheme's liability hedging portfolio is constructed based on the profile of the Scheme's liability cashflows. Performance of the hedging portfolio relative to the Scheme's liabilities as measured by the Scheme Actuary is monitored on a quarterly basis. A new liability proxy was agreed in 2021 following completion of the 2020 actuarial valuation. The liability hedge design was updated during the Scheme Year to account for significant changes in inflation assumptions and the liability hedging portfolio was rebalanced.

20-23 – The Trustee, with assistance from WTW, monitors the asset allocation of the Scheme's portfolio. Whilst the portfolio allocations moved outside the control ranges during the Scheme Year, the IC used its discretion to rebalance only when deemed appropriate in the context of the Scheme's overarching long-term strategy. In May 2022, money was disinvested from the LDI mandate and transferred into the LGIM investment grade credit fund to rebalance the portfolio closer to the target asset allocation.

24 – The Delegated Manager continues to operate within guidelines set by the Trustee. One amendment to the Investment Guidelines was agreed by the Trustee during the Scheme Year. No active breaches of the guidelines were reported by the Delegated Manager during the Scheme Year.

Liquidity and diversification

25 – The Trustee adhered to this policy by ensuring that the Scheme held sufficient investments in liquid, income-generating assets over the Scheme Year and by monitoring the income provided by each of its investment managers on a quarterly basis. The Scheme's cashflow requirements are regularly assessed by the Bupa Pensions Team and compared to the Scheme's cash holdings and expected income. A new cash management process was introduced during the Scheme Year which allows the Pensions Team to manage the Scheme's ongoing cash balance more efficiently. Cash disinvestments have been reported to the IC as part of the regular quarterly portfolio monitoring.

26 – This paragraph is a statement of fact rather than setting out any policies.

Asset manager policy

27-33 – Within the liability matching portfolio managed by BlackRock, and the investment grade credit portfolio managed by LGIM, the Trustee has used its discretion to tailor these mandates to the Scheme's specific circumstances. During the Scheme Year, the following key changes were made:

- BlackRock – change to the liability benchmark used within the mandate to reflect the new liability proxy described earlier in this document.
- LGIM – changes to reflect further restrictions / exclusions in relation to thermal coal, tar sands, and controversial weapons, in addition to a reduced fee arrangement.

Within the alternative credit portfolio, the Delegated Manager paid due regard to the policies outlined in this SIP. Whilst the use of segregated mandates is limited, the Delegated Manager incorporated similar climate restrictions as outlined above for the Scheme's segregated emerging market debt manager, and more generally makes underlying investments that are deemed attractive from a risk/return/fee (including sustainable investment) perspective.

The Trustee continued to monitor the Scheme's investment managers, having received quarterly monitoring reports from its investment adviser. These reports include details of short-, medium- and longer-term performance relative to benchmarks/targets for all mandates as well as commentary regarding performance with significant deviation from benchmark/target. Throughout the Scheme Year, the Trustee used these reports as an input into its ongoing assessment of its investment managers' performance. The Trustee also reviews its manager appointments to ensure that they remain appropriate for the Scheme and engages with managers where appropriate to further encourage alignment. No managers were terminated during the Scheme Year on the grounds of being poorly aligned from an ESG perspective. The only changes in the manager line-up were within the alternative credit portfolio, which was part of a wider portfolio redesign to increase diversification and portfolio efficiency.

As part of its manager selection and ongoing oversight processes for the alternative credit portfolio, the Delegated Manager considers the level of fees and the type of fee structures used by each manager (including a consideration of the alignment of interests created by certain fee structures). The Delegated Manager considers a number of factors including the asset class / investment strategy, the way in which the strategy is implemented (e.g., active management or passive benchmark tracking), and fee benchmarking relative to peers. The majority of the underlying investment managers for this portion of the Scheme's assets are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. However, for some of the underlying mandates in the alternative credit portfolio, part of the managers' remuneration can be based on their performance over an appropriate time horizon. The use of performance fees for these types of investments (where manager skill is a key driver of expected returns) is quite common. The Trustee and Delegated Manager recognise the incentives created by such fee structures and are comfortable with them given the highly active nature of these individual strategies, and in the context of the Scheme's wider investment portfolio where the aggregate use of these fee structures is limited. In the

Scheme's investment grade credit portfolio and liability hedging portfolio, the mandates are of a more passive nature and the fees are structured in that way. The Trustee reviewed the fees in relation to these managers and engaged with the managers where appropriate.

The Trustee has a policy in relation to monitoring portfolio turnover and the costs associated with the expected turnover range for that mandate. The Trustee receives annual reporting from the Scheme's investment consultant which outlines the costs associated with portfolio turnover. In addition, the Trustee reviewed the level of turnover in the investment grade credit portfolio as part of its annual review. The Trustee did not review the level of turnover in the liability hedging portfolio as it is a non-discretionary mandate, nor the alternative credit portfolio given the ongoing transition activity following the Delegated Manager's appointment. The Trustee did, however, review the costs associated with the transition activity and deemed them appropriate.

Responsible investing, stewardship and sustainability

34 – The Trustee reviewed its policy regarding responsible investments as part of the October 2021 review of the SIP.

35 – This is a statement of the Trustee's beliefs.

36 – Over the Scheme Year the Trustee's views on the materiality of financial or non-financial factors remained unchanged. The Trustee did not make any changes to the Scheme's investment arrangements as a result of ESG views raised by the Company or the Scheme's members.

37 – The Trustee has received and reviewed reporting from the Delegated Manager in relation to the nature of its new investments and any ESG credentials that they have. In relation to the Scheme's other assets, the Trustee considered LGIM's expertise and activities in this area as part of its annual review.

38 – The investment managers who managed the largest proportion of assets over the whole Scheme Year were BlackRock and LGIM. The Delegated Manager is also responsible for managing a material proportion of the Scheme's assets. The Scheme is invested solely in credit assets and therefore voting rights have not been relevant. BlackRock, LGIM and the Delegated Manager are all signatories to the UK Stewardship Code.

39 –The Investment adviser process for researching and rating investment managers, includes an explicit consideration of the manager's policies and actions in relation to ESG. The Trustee reviewed LGIM during the Scheme Year including its policies and activities in the area of ESG. The Delegated Manager regularly assesses the underlying managers with regards to their ESG credentials.

Performance objectives and investment return

40 – On a quarterly basis throughout the Scheme Year, the Trustee reviewed the performance of the underlying funds through quarterly investment monitoring reports produced by the investment adviser. These reports were used for discussion at the Trustee's quarterly meetings. The reports included short-and long-term performance of the underlying assets as well as the benchmark performance against which each manager is measured. From Q1 2022, following completion of the transition period, the Trustee has reviewed quarterly investment reports from the Delegated Manager which include details on portfolio composition and performance.

Risk management

41 – This paragraph states how the Trustee defines the various investment to which the Scheme is exposed and how each risk is measured and managed. Over the Scheme Year the Trustee was satisfied that each of the defined risks were managed appropriately.

DC Assets

42-44 – These paragraphs provide details on the remaining DC assets, following the transition to the Master Trust. There have been no changes to the remaining DC assets during the Scheme Year.

45-47 – These paragraphs provide details on the approach to monitoring the remaining DC assets.

The Trustee continues to monitor the remaining DC assets through the provision of reporting and advice from its DC pension advisers. These reports are used for discussion at an Investment Committee meeting once a year, as well as being shared with the Trustee as part of its Annual Governance Statement preparation.

Appendix 1 – Roles and responsibilities

These paragraphs state the responsibilities of the Trustee, Investment Committee, investment managers, Delegated Manager, custodian, and investment adviser. Over the Scheme Year, the Trustee deemed that each of the aforementioned parties had fulfilled their roles and responsibilities.

Voting and engagement

DB Section

The Trustee's policy is to delegate the day-to-day integration of ESG considerations and stewardship activities to its investment managers. Due to the nature of the Scheme's investments (it is almost entirely invested in credit assets with the exception of a very small allocation to a private equity fund which is in the process of winding up), the exercise of voting rights does not apply to the Scheme's investments in any meaningful way.

However, the Trustee believes that engagement activities are also important for credit assets – the links below set out the key managers' and the Delegated Manager's approaches to engagement:

https://www.blackrock.com/corporate/about-us/investment-stewardship

https://www.lgim.com/uk/en/capabilities/investment-stewardship/
https://www.wtwco.com/en-GB/Insights/2022/07/sustainable-investment-report-2022