The Bupa Pension Scheme – year ended 30 June 2024

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 30 June 2024 ("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.bupa.co.uk/~/media/Files/MMS/digi-03122.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 / changes over the year

The SIP was reviewed and updated during the Scheme Year in July 2023. A summary of the key changes to the SIP compared to the previous version is provided below:

- **DC Section**: No major changes.
- **DB Section**: A reference was added in relation to interest rate and inflation risk and how these are managed by the Scheme. Climate change risk was identified as a financially material factor within the investment decision-making process and one of the Trustee's key areas of focus.

The relevant version of the SIP referred to henceforth within this Statement is dated July 2023.

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 ahead of its long-term funding objective (full funding on a prudent measure of the Scheme's liabilities);
- 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 July 2023 and confirmed that the principles remained appropriate. During the Scheme Year, the Scheme's investments were managed in a manner consistent with its long-term funding objective, although we note that the strategy was due to be reviewed as part of the completion of the 2023 actuarial valuation process.

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 and controversial weapons and put in place restrictions in relation to investments in thermal coal and tar sands in both its segregated credit mandate with Legal & General Investment Management (LGIM). The Delegated Manager, WTW, has also worked with the underlying investment manager of the Fallen Angels strategy within the alternative credit mandate to help define environmental criteria that securities have to meet in order to be included within the Fund. Similarly, the JP Morgan strategy is required to invest at least 51% of assets in securities that promote environmental and/or social characteristics as defined by the fund's inclusion criteria. In addition, the infrastructure manager within the delegated alternative credit mandate, Rivage, has invested a significant proportion of its drawn capital in renewable energy projects. Rivage proposed to increase the cap to renewable energy within the fund guidelines, given increased opportunities presented within this sector and this was approved by the investors. As at the date of this statement, the Trustee was in the process of preparing the second iteration of the climate disclosure report.

18 – Over the Scheme Year, the Trustee, with assistance from its Investment Consultant, WTW, monitored the portfolio's risk/return characteristics, liability 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 broadly consistent with the long-term objective. Whilst the portfolio's expected return has at times been slightly higher that the target return, the IC has decided not to take any action given the heightened volatility observed in financial markets over the Year, and that the risk parameters have remained within limits. In addition, the Trustee is due to undertake a detailed review of the investment strategy and objective following the completion of the 2023 actuarial valuation process where the expected return will be taken into consideration.

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. The liability hedge design was last updated following the LDI crisis to account for significant changes in inflation assumptions and the liability hedging portfolio was rebalanced. The liability proxy was reviewed in 2024 following the completion of the 2023 actuarial funding valuation process.

20-23 – The Trustee, with assistance from the Investment Consultant, monitors the asset allocation of the Scheme's portfolio. The portfolio allocations have been within the control ranges during the Scheme Year, and the IC used its discretion to rebalance to the strategic asset allocation when deemed appropriate in the context of the Scheme's overarching long-term strategy and recognising the costs that may be associated with rebalancing.

24 – The Delegated Manager has been managing the Scheme's alternative credit assets in line with the investment guidelines set by the Trustee within their Delegated Agreement.

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. The Trustee maintains a cash management policy, which documents the process for managing the Scheme's ongoing cash requirements and is reviewed on an annual basis. This policy is reviewed annually and reviewed during the period in September 2023.

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. Within the alternative credit portfolio, the Delegated Manager paid due regard to the policies outlined in the SIP. Whilst the use of segregated mandates is limited, the Delegated Manager aims to make 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 Consultant. These reports include details of short-, medium- and longer-term performance relative to benchmarks/targets for all mandates, commentary regarding performance as well as the additional collateral sufficiency analysis provided by the Scheme's LDI manager. Throughout the Scheme Year, the Trustee used these reports as an input into its ongoing assessment of its investment managers' performance.

No managers were terminated during the Scheme Year on the grounds of being poorly aligned from an ESG perspective.
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 (eg. 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.

The Trustee has a policy in relation to monitoring portfolio turnover and the costs associated with the expected turnover range for the relevant Scheme assets. The Trustee receives annual reporting from the Scheme's Investment Consultant which outlines the costs associated with portfolio turnover, noting that turnover is not as relevant to the illiquid mandates within the alternative credit portfolio and the LDI portfolio where the manager manages the portfolio to a Scheme specific benchmark.

Responsible investing, stewardship and sustainability

34 – The Trustee is in the process of formally setting out its policy regarding sustainable investment which is due to be finalised later in 2024. The policy will be reviewed at least annually to ensure it remains consistent with the Scheme's circumstances, the Sponsor's approach and evolving practices in the area.

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 these investments and their ESG credentials. In relation to the Scheme's other assets, the Trustee held a meeting with LGIM in 2023 to covering their approach on ESG investing within bond portfolios.

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 Consultant's process for researching and rating investment managers, includes an explicit consideration of the manager's policies and actions in relation to ESG. The Delegated Manager regularly assesses the underlying managers with regards to their ESG credentials. Over the Scheme Year, the Trustee developed stewardship priorities to help drive engagement within the stewardship themes that are deemed to be of more relevance to the Trustee. Climate change, biodiversity, human capital and human rights have been identified as the key stewardship priorities for the Trustee.

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 Consultant. The Delegated Manager has also provided separate investment reports that are focused on the performance within the alternative credit portfolio. 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.

Risk management

41 – This paragraph states how the Trustee defines the various investment risks 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.

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. The oversight is to ensure that Prudential continues to achieve the objective of the fund so that members benefit from long-term positive returns.

Appendix 1 – Roles and responsibilities

These paragraphs state the responsibilities of the Trustee, Investment Committee, investment managers, Delegated Manager, custodian, and Investment Consultant. 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, the exercise of voting rights does not apply to the Scheme.

However, the Trustee believes that engagement activities are 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/solutions/services/sustainable-investment

The Trustee ensures that the Scheme's underlying investment managers engage on important ESG related topics on behalf of the Scheme. Key activity over the Scheme year has been set out below.

1. Rivage, who form part of the Scheme's alternative credit portfolio managed by the Scheme's delegated manager, have invested heavily in renewable energy. Rivage have undertaken various engagements concerning environmental and other issues with a number of the issuers to which the Scheme has exposure to over the Scheme year. Key examples are as follows:

   Human Rights: Rivage engaged with a solar power producer over concerns with the borrower's use of Chinese suppliers that were identified as possibly benefiting from forced labour through their supply chain. Rivage requested that the borrower provided them with a dedicated mapping of their supply chains, with disclosure of invoices for the various components, including geographical origin. The borrower was receptive to these requests and the contract has been amended to include periodic reporting of additional supply chain data to Rivage.

   Biodiversity: Rivage engaged with a biomass power producer to ensure that the biomass procured was harvested under conditions complying with the standards of the EU Renewable Energy regulations (REDII). The borrower confirmed that the biomass used would come from the local agricultural industry and pellets from Canada. Rivage also engaged with the borrower's environmental manager, who provided assurances that the pellets would be externally certified in accordance with the relevant regulatory requirements and that discussions with suppliers to enhance current disclosures of the supply chain for pellets procurement were still ongoing. The engagement resulted in greater transparency on the subject of biodiversity, but the borrower will be the subject of another targeted engagement process over the 2024 financial year to understand how these considerations have been reflected in their operations.

2. LGIM, the Scheme's investment grade credit manager, has undertaken various engagements over the Scheme year on ESG issues, including those aligned with the Trustee's stewardship priorities. Key examples are as follows:

   Human Rights: LGIM engaged with a large e-commerce firm following accusations that it had interfered with its workers' efforts to unionise. LGIM requested that the company immediately adopt a global policy of neutrality and that it commit to negotiating with the union in good faith, should a majority of employees vote for the union's establishment. Additionally LGIM have supported a number of shareholder resolutions requesting third-party audits on the company's rights and due diligence processes, a third party-audit on working conditions and a report on the median gender/racial pay gap. The company has taken some steps to address these concerns, including the publication of policies, a 'human rights impact assessment' identifying key areas for improvement and a racial equity audit. Nonetheless, the company has so far resisted disclosing pay gaps and has not committed to improving their freedom of association policy. LGIM remains engaged with the company to try and push for further change.

   Climate Change: LGIM has been engaging with a large oil-producer both individually and as part of their membership of Climate Action 100+. They have sought commitments that the company will not make further revisions to their climate-related targets and sought clarity on their production outlook beyond 2030 after voting against the re-election of the Chair, following the company's decision to revise oil production targets in 2023. The company has made commitments to allocate a substantial share of capital to low carbon segments, including projects to develop solar energy in the US, to reduce emissions in aviation and to develop major offshore wind projects in the UK and US. LGIM will continue engaging with the company on topics including emissions targets, value chain approach and responsible divestment and/or decommissioning of assets.

Biodiversity: LGIM has been engaging with a multinational food processing and retailing company on the topic of deforestation. Since signing the COP26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios, LGIM has refined its minimum expectations, which are that all companies in 'deforestation-critical sectors,' for which they have data, have both a deforestation policy and programme. LGIM shared these expectations with the company, as well as the voting sanction that would be applied if these expectations were not met. The company acknowledged the need for a deforestation policy, but is currently prioritising the required disclosures. LGIM will continue monitoring the company's adherence to its minimum standards on deforestation.

DC Section

Like the DB Section, voting and engagement are delegated to managers. The remaining investments within the DC Section are very small in the context of the Scheme and the Trustee does not have the power to change the manager or the nature of the investments. As a result and as outlined in the SIP, the Trustee takes a proportionate approach to these investments. This focusses largely on reviewing the returns and the strength of the Prudential with-profits fund that hold the vast majority of DC Section assets, which the Trustee did during the year. The Trustee is comfortable the operation of this fund continues to support the principle of positive returns for participants in the form of guaranteed and terminal bonuses.