Statement of Investment Principles
Bupa Pension Scheme
July 2023

Pensions Act

1. Under the Pensions Act 1995, subsequently amended by the Pensions Act 2004, the Trustee is required to prepare a statement of the principles governing the investment decisions of the Bupa Pension Scheme (the Scheme). This document contains that statement.

2. Before finalising this document, the Trustee has consulted the Employer and the Trustee will consult the Employer before revising this document. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustee.

3. Before preparing this document, the Trustee has sought written advice from the Scheme's Investment Consultant. The Trustee will review this document, in consultation with the Investment Consultant, at least once every three years, or sooner as required. The date this Statement of Investment Principles(SIP) was last reviewed is October 2022.The Trustee will similarly obtain such advice as appropriate whenever the Statement is reviewed or revised. The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this Statement.

4. Before preparing this document, the Trustee has had regard to the requirements of the Pensions Act 1995 concerning diversification of investments and suitability of investments and the Trustee will consider those requirements on any review of this document or any change in its investment policy. The Trustee will refer to this document where necessary to ensure that it exercises its powers of investment so as to give effect to the principles set out in it as far as is reasonable.

Financial Services and Markets Act 2000

5. In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed Investment Managers, which may include an insurance company or companies. The Investment Managers shall provide the skill and expertise necessary to manage the investments of the Scheme competently.

Scheme Background

6. As at the date of this statement, the Scheme consists of a defined benefit (DB) section and some residual DC assets including money purchase (MP) assets and AVCs. The investment management arrangements for each are different, reflecting their different nature.

7. The DB section was closed to new members from 1 October 2002 and to future accrual from 31 December 2020.

8. From 1 January 2021, DC contributions have been paid into a separate Master Trust. The Scheme’s main DC assets were transferred into this Master Trust on 20 April 2021 and 22 June 2021. Additional asset transfers took place in Q3 and Q4 2021 to remove some legacy money purchase assets and AVCs from the Scheme. As at the date of this statement, only some residual DC assets remain (as outlined in paragraph 6 above).

9. The Scheme also provided a facility for members to pay AVCs into the Scheme to enhance their benefits at retirement. Apart from the residual funds outlined above, these AVC assets were transferred to the Master Trust in 2021.

DB Section

Objectives

10. The overarching investment objectives of the assets backing the Scheme's DB section are:

    a. The acquisition of suitable assets of appropriate liquidity which, together with such new contributions from members and the Employer as may be made from time to time (if any), will generate income and capital growth to meet the cost of current benefits which the Scheme provides.

    b. To limit the risk of the assets failing to meet the liabilities over the long term.

    c. To minimise the long-term costs of the Scheme by prudentially maximising the return on the assets whilst having regard to the objective shown under point “b” above.

11. Balancing objectives a-c above, the Trustee has currently set a long-term return target of c.1% p.a. above a gilts-based liability proxy.

Scheme Specific Funding

12. The Pensions Act 2004 requires the Trustee to maintain a Statement of Funding Principles, stating the methods and assumptions used in calculating the Scheme’s liabilities (Technical Provisions) and the manner and period over which any shortfall will be remedied. The Trustee must obtain the advice of the Scheme Actuary before preparing or revising the Statement of Funding Principles, which must be agreed with the Employer. Contribution arrangements, including contributions to address any shortfall, must be agreed with the Employer and certified by the Scheme Actuary.

13. The Trustee considers that the investment policy described in this Statement is consistent with the statutory funding objective as described under the Statement of Funding Principles set at the last valuation of the Scheme.

14. The Trustee will review this investment policy in the light of actuarial valuations and certificates and schedules of contributions produced in order to comply with the Pensions Act 2004.

15. In addition to the statutory funding objective, the Trustee and the Employer have also agreed an objective known as the Long Term Funding Target ("LTFT"). Details of the LTFT are provided in the Deed of Amendment and Restatement in relation to the Long-Term Funding Target dated 14 November 2014.

Investment strategy

16. The Trustee recognises that different pension schemes have different objectives, liabilities and differing strengths of sponsoring employer. It has received advice that has included the undertaking of asset liability modelling and risk budgeting work to determine an appropriate investment strategy. The Trustee resolved to accept the advice and has designed a high-level investment strategy that is consistent with its long term objectives and its assessment of the strength of the Employer.

17. The Trustee takes account of financially material risks and opportunities – including sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations (not least climate change) – and diversifies the Scheme’s risk exposures based on materiality and impact within the above integrated risk management framework. The Trustee’s focus is on financially material factors, which is aligned with the Trustee’s fiduciary duty to pension scheme members. To the extent that the Trustee considers that other factors are likely to become financially material, then these may also be considered in structuring the Scheme’s investment strategy.

18. In order to manage the Scheme’s investments efficiently, the Trustee has delegated responsibility for efficient implementation of the Scheme’s investments to the Investment Committee. The parameters specified by the Trustee for the Investment Committee (IC) to adhere to, are as follows:

    - The IC has delegated authority to control the Scheme’s level of investment risk and return by varying the allocations to physical assets (as defined below) and the liability hedge ratio subject to the principles agreed in the Deed of Amendment and Restatement in relation to the Long-Term Funding Target dated 14 November 2014, including the following:

  - Target a long-term expected return that is consistent with the Scheme's Funding objectives.
  - Invest in predominantly high-quality income generating credit assets, appropriately diversified.
  - Hold a combination of physical assets and derivatives which match at least 75% of the interest rate and inflation exposure of the liabilities subject to an appropriate level of collateral as set out in a separate collateral risk management framework.
  - Balance the objectives of reducing investment risk as well as the Company's Solvency Capital Requirements (SCR).

- In addition to the above process, the IC should also adhere to the following risk targets:

  - The level of one year Value at Risk (VaR) versus the Scheme's LTFT liabilities to be no greater than 12% of the Scheme's asset value at any quarter end. (VaR to include both investment and longevity risk and be calculated at the 95% confidence level using the Investment Consultant's risk budgeting process.) Should the VaR exceed this pre-agreed level at any point in time, the IC should report it to the Trustee and the Employer along with an explanation of the drift and proposed actions, if any.
  - The level of tracking error of the Scheme's assets versus its LTFT liabilities to be no greater than 6% per annum at any quarter end. (Tracking error to be calculated using the Investment Consultant's risk budgeting process.) Should the Tracking Error exceed this pre-agreed level at any point in time, the IC should report it to the Trustee and the Sponsor along with an explanation of the drift and proposed actions, if any.

19. The Trustee will regularly review and take advice from the Investment Consultant as to the appropriateness of its investment policy relative to the liability profile and overarching funding and investment objectives. In reviewing the investment strategy, the Trustee will take into consideration the nature of the liabilities and how they are likely to evolve over time.

20. The Scheme's investment strategy is currently implemented using three asset class segments: liability hedging assets, investment grade credit – buy and maintain, and alternative credit assets. For strategic monitoring purposes, the Trustee has set a strategic target asset allocation, liability hedge ratio and corresponding control ranges (as outlined below). However, this is subordinate to, and viewed in the context of, the overarching funding level and risk exposures relative to the attainment of the Scheme's long term objectives.

21. The current strategic asset allocation to each of these segments and the target liability hedge ratios are:

Asset class segment	Investment manager	Target allocation (%)	Control range (%)
Liability hedging assets (LDI and cash)	BlackRock / Northern Trust	42	+/- 5
Investment grade credit – buy and maintain	Legal & General	40	+/- 5
Alternative credit	Willis Towers Watson	18	+/- 5
Total Scheme		**100**	
Target hedge ratio (% of LTFT liabilities)	Interest rate	90	+/- 5
	Inflation	90	+/- 5

22. The IC has set control ranges around the target asset allocations for each broad asset class and around the target liability hedge ratio. In setting the control ranges, the Trustee has sought to balance the desire to align the Scheme's investment strategy with the target allocation to the asset class buckets with the costs associated with trading.

23. The IC monitors the actual position relative to target on a quarterly basis. In general, it is intended that should the asset allocation or hedge ratio move outside of the agreed control ranges, the Trustee will seek to bring it back towards target; however, the IC retains discretion not to do so if/when deemed appropriate in the context of the Scheme's overarching long-term strategy, subject to ongoing monitoring of such a decision.

24. The Trustee has appointed a Delegated Manager to manage the Scheme's alternative credit assets on a discretionary basis. For these assets, the balance within and between the underlying investments will be determined from time-to-time at the discretion of the Delegated Manager, with the objective of maximising the probability of achieving the Scheme's investment objective set by the Trustee. The Delegated Manager's discretion is subject to guidelines set by the Trustee in the Delegated Agreement between the parties as amended from time to time.

Liquidity and diversification

25. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in the majority of foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investment policy, where possible. The Trustee, together with the Scheme's administrators, will also ensure that the Scheme holds sufficient cash to meet the likely benefit outgo from time to time.

26. The Scheme's appointed investment managers, including the Delegated Manager, are responsible for ensuring appropriate diversification of investments and the suitability of investments.

Asset manager policy

27. The Scheme uses a number of different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, the DB Section portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005).

28. In order to ensure appropriate incentivisation and alignment of decision making with the Trustee's overall objectives, strategy and policies, the Trustee has set the following policies:

    i. Within the liability matching and investment grade credit portfolios, the Trustee uses its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee's policies, where relevant to the mandate.

    ii. Within the alternative credit portfolio, the Trustee has delegated investment selection, de-selection and the ongoing management of relationships with investment managers to the Delegated Manager. In exercising investment discretion, the Delegated Manager is required to act in accordance with its obligations in the Delegated Agreement, including the guidelines and any investment resrictions set out therein, and in so doing is expected to give effect so far as reasonably practicable to the principles contained in this SIP. The Trustee expects the Delegated Manager to:

        - check that the investment objectives and guidelines of any pooled vehicle are consistent with the Trustee's policies contained in the SIP;

        - set appropriate guidelines within each investment management agreement for segregated investments with a view to ensuring consistency with the Trustee's policies contained in the SIP.

29. Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will (either directly or indirectly via its Investment Consultant or Delegated Manager) engage with the manager further to encourage alignment, where appropriate. This monitoring process

includes specific consideration of the sustainable investment/ESG characteristics of the portfolio, where appropriate, and the managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the mandate will be terminated and replaced.

30. The Trustee is a long term investor and it expects its investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods, where appropriate, and noting the constraints within which certain managers must operate.

31. Where the Trustee appoints its investment managers directly, it does so with an expectation of a long-term partnership, to encourage active ownership of the Scheme's assets. The Trustee also expects the Delegated Manager to select investment managers with an expectation of a long-term partnership with the Trustee. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect (nor expect the Delegated Manager) to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team. The Trustee adopts the same long term focus as part of its ongoing oversight of the Delegated Manager.

32. Managers are largely paid an ad valorem fee, in line with normal market practice which includes consideration of long-term factors and engagement. Performance based fees are used in limited circumstances and only where appropriate to the specific mandate.

33. The Trustee reviews the costs incurred in managing the Scheme's assets annually which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate, where appropriate.

Responsible investing, stewardship and sustainability

34. The Trustee's current policy, reflecting the regulatory requirements on responsible investing, stewardship and sustainability, is outlined below. However, the Trustee will keep this policy under review to reflect general market and any specific Scheme developments.

35. The Trustee considers long-term sustainability to be an important and relevant issue to consider throughout the investment process. In particular, the Trustee recognises that an investment's financial success can be influenced by a wide range of factors including ESG issues (including climate change) and stewardship (including voting and engagement) activities. The Trustee therefore recognises that ESG considerations and stewardship are important aspects of responsible financial risk management in order to protect and enhance the value of investments and should improve long-term financial outcomes.

36. Where ESG factors, stewardship and broader sustainable investment considerations are deemed to be financially material, the Trustee believes that they should be taken into account within the investment decision-making process. The time horizon over which financially material factors are being considered is consistent and reflective of the Scheme's objectives defined above. The Trustee is open to considering views relating to ESG, stewardship and sustainability proactively raised by members and/or the Company. Where deemed appropriate, the Trustee would reflect such views within policies provided that they are consistent with the Trustee's fiduciary duty, and the expected financial impacts would not be materially adverse for the Scheme.

37. When considering the appointment of new managers, and reviewing existing managers outside of the alternative credit assets, the Trustee, together with its Investment Consultant, looks to take account of the approach taken by managers with respect to sustainable investing, including voting policies and engagement where relevant. Within the alternative credit assets, the Trustee expects the Delegated Manager to work with investment managers who will use their engagement activity to drive improved performance over medium to long term periods within the wider context of long-term sustainable investment. The Trustee notes that the Delegated Manager may invest in certain strategies where such engagement is not deemed appropriate or possible, due to the nature of the strategy and/or the investment time horizon underlying decision making. The Trustee expects that the appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

38. The Trustee has delegated responsibility for the selection, retention and realisation of investments, as well as the exercising of rights (including voting rights) attaching to those investments, to its individually selected

investment managers. The Trustee's policy is that the extent to which ESG considerations are taken into account in these decisions is left to the discretion of its investment managers. The Trustee expects its managers to take account of any ESG issues that may have a material impact on the portfolio and exercise any rights attaching to investments responsibly as part of their delegated duties. In particular, where relevant to the investment approach, the Trustee expects its investment managers to comply with the UK Stewardship Code and other local stewardship codes or explain where they do not adhere to these codes, and to document how they are considering and addressing ESG issues. The Delegated Manager itself is a signatory to the Principles for Responsible Investment and the UK Stewardship Code and is actively involved in external collaborations and initiatives. The Scheme's investment managers for investment grade credit and liability hedging assets are also signatories of the Principles for Responsible Investment and of the UK Stewardship Code.

39. The Trustee monitors the ESG integration and stewardship activities of its investment managers (including with regards to the capital structure of investee companies, actual and potential conflicts, other stakeholders, and the ESG impact of underlying holdings), where relevant, with the assistance of its Investment Consultant via a thematic oversight approach focusing on the most impactful and/or material areas. The Trustee has identified climate as one of its key stewardship priorities. The Trustee will use these priorities to closely monitor the activities of the Scheme's investment managers and will report the results of this in the annual implementation statement.

Performance Objectives and Investment Return

40. Whilst the Trustee and the Delegated Manager are not involved in the investment managers' day to day method of operation and therefore do not directly influence attainment of the performance target, there are processes in place to ensure that performance is assessed on a regular basis and all appointments will be reviewed on a regular basis. A measurable objective has been developed for each segment of the DB section, consistent with the achievement of the Scheme's longer-term objectives, and an acceptable level of risk.

Risk Management

41. The Trustee recognises a number of risks involved in the investment of the assets of the Scheme:

- Solvency risk and mismatching risk:
    - are measured through a qualitative and quantitative assessment of underlying investment risks (including inflation and interest rate risk, as well as a range of other macroeconomic, market and idiosyncratic factors including liquidity, currency, credit, equity, sustainability, concentration, asset security and other operational factors) relative to the expected development of the Scheme's liabilities.
    - are managed by holding a diversified portfolio of assets which provide a sufficient level of return and an appropriate level of hedging against inflation and interest rate movements.
- Interest rate and inflation risk
    - are measured by comparing the likely movement in the Plan's liabilities and assets due to movements in inflation and interest rates.
    - are managed by holding a portfolio of liability hedging assets that enable the Scheme's assets to broadly match movements in the value of the liabilities due to inflation and interest rates. The construction and ongoing management of this portfolio is undertaken by the investment manager for the liability hedging assets.
- Manager risk:
    - is measured by the expected deviation of the return relative to the benchmark set.
    - is managed by limiting exposure to any one investment manager, consideration of the appropriate amount of the Scheme to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.
- Liquidity risk:
    - is measured by the level of cashflow required by the Scheme over a specified period.

- is managed by the Scheme's administrators and pooled fund investment managers assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

- Political risk:
  - is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
  - is managed by regular reviews of the actual investments relative to policy and through the level of diversification within the existing policy.
- Sponsor risk:
  - is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit.
  - is managed by considering a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the sponsor.
- Currency risk :
  - is measured by the proportion of assets which the Scheme holds in non-GBP currencies.
  - is managed by targeting a 100% hedge of the Scheme's foreign currency exposure.

DC Assets

42. Following the transition to the Master Trust in 2021, the remaining DC 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 a number of unit-linked funds* (Money purchase)

    * The Aviva unit-linked funds are: Reserve Fund, Managed Fund, My Future Consolidation,Lifestyle Retirement 2030, Lifestyle Retirement 2035 and Lifestyle Retirement 2040.

43. 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.

44. The Trustee investigated the possibility of transferring these Prudential With-profits Fund assets to the Master Trust but, following advice, concluded that it was not in members' interests to do so. Consequently, these assets will be retained within the DC Section of the Scheme, but the Trustee has accepted that it has little control over the investment strategy of this fund.

Monitoring

45. Since the transfer to the Master Trust, the monitoring and risk management of the DC Section is consistent with a care and maintenance approach.

46. Whilst the Trustee recognises that it has little control over the investment strategy of the with profits fund, it continues to manage the risks as follows:

    - Opportunity risk: Is addressed through communication to members
    - Capital risk: Is managed by monitoring the solvency of the with-profits fund
    - Manager risk: Is managed by ongoing monitoring of the underlying investment management of the fund
    - Operational risk: Managed by ongoing monitoring and assessment of Prudential as a pension provider.

47. The performance of the investment managers for the DC assets are compared against the performance of other comparable funds that are available for investment.

	Name	Signature	Date
On behalf of the Trustee	Mr M Potkins Chairman of Trustee		28 June 2023
Confirmation that Employer consultation has taken place	Company representative		

Appendix 1 – Roles and Responsibilities

Trustee Board

The investment responsibilities of the Trustee include:

- Setting the investment principles of the Scheme and maintaining this Statement.
- Determining an appropriate long term investment risk profile and setting constraints for the Investment Committee to operate within.
- Appointing, reviewing and/or replacing the Investment Consultant and Delegated Manager.
- Changing the membership, or chairman, of the Investment Committee.
- Consulting with the Employer when reviewing this Statement.

Investment Committee

The responsibilities of the Investment Committee to the Scheme include:

- Reviewing the content of the Statement of Investment Principles periodically (at least once every three years) and recommending modifications to the Trustee if deemed appropriate.
- Within the powers delegated to it by the Trustee, setting and reviewing an appropriate DB investment strategy within the parameters set out in this document.
- Monitoring and reviewing as appropriate the guidelines and restrictions within which the investment managers and Delegated Manager are required to operate, having regard to the suitability of investments and the need for diversification.
- Assessing the quality of the performance and processes of the investment managers and Delegated Manager by means of regular reviews of the investment results.
- Appointing and terminating all mandates relating to the investment of the DB section, the DC assets and AVCs.

Investment managers

The responsibilities of the investment managers include:

- Utilising their professional skills in pursuit of the agreed performance objectives, whilst operating within the guidelines and restrictions set by the Investment Committee and Trustee.
- Giving effect to this document as far as reasonably practicable.

Custodians

The responsibilities of the custodians include:

- The safekeeping of all of the assets of the Scheme.
- Reconciling the records of assets held with statements provided by the investment managers.
- Providing all appropriate administration relating to the Scheme's assets.
- Processing all dividends and tax reclaims in a timely manner.
- Dealing with corporate actions.

Investment Consultant

The responsibilities of the Investment Consultant include:

- Assisting the Trustee in reviewing this document.
- Advising the Trustee and Investment Committee on the strategic asset allocation of the Scheme.
- Advising the Trustee and Investment Committee on how best to implement the Scheme’s chosen investment strategy.

- Advising the Trustee and/or the Investment Committee at their request or pro-actively informing them:
  - of any changes in the investment managers' organisations that could affect the interests of the Scheme
  - of any changes in the investment environment that could either present opportunities or problems for the Scheme.
- Providing recommendations on manager selection to the Trustee and Investment Committee (noting that the Delegated Manager has responsibility for manager selction with that portion of the Scheme's assets)
- Providing advice to ensure the Scheme's managers are and remain 'satisfactory' as defined by the Pensions Act (excluding the Delegated Portfolio where these powers are delegated to the Delegated Manager).
- Undertaking project work as requested by the Trustee and/or the Investment Committee.
- Assisting the Trustee and Investment Committee in monitoring the Scheme's investments.

<u>Delegated Manager</u>

The responsibilities of the Delegated Manager include (for the alternative credit assets only):

- Determining and investing the Scheme's assets in an appropriate and diverse portfolio of alternative credit assets, which are expected to generate a return consistent with the Trustee's objectives for the alternative credit portfolio.
- Investment manager selection and de-selection, and implementation of any associated trading.
- Ongoing monitoring of and relationship management with the Scheme's alternative credit investment managers.
- Reporting to the Trustee on the performance of the alternative credit portfolio and the portfolio's adherence with the guidelines set by the Trustee in the Delegated Agreement.