

The Bupa Pension Scheme - year ended 30 June 2023

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 2023 (“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.

SIP reviews / changes over the year

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

- **DC Section:** Additional information was included to confirm that following the transfer of the main DC Section to Master Trust, DC contributions have started being paid into the Master Trust. It was also added that asset transfers were undertaken to remove legacy money purchase assets and Additional Voluntary Contributions (AVCs) from the Scheme. The list of Aviva unit-linked funds for the remaining DC assets within the Master Trust was also updated.
- **DB Section:** Clarified certain aspects of the Trustee’s stewardship and engagement policy and confirmed the division of responsibilities between Trustee, Investment Adviser, Delegated Manager and Investment Managers.

The relevant version of the SIP referred to henceforth within this Statement is dated June 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)

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- DC Assets
 - Remaining DC assets, including AVCs (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 2022 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 and controversial weapons, and put in place restrictions in relation to investments in thermal coal, tar sands in both of its segregated credit mandates with Legal and General Investment Management and JP Morgan. The Delegated Manager 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. 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 which they are looking to increase over time. As at the date of this statement, the Trustee was in the process of preparing the first iteration of the climate disclosure report under the Taskforce for Climate-Related Financial Disclosures ("TCFD") regulations.

18 – Over the Scheme Year, the Trustee, with assistance from its Investment Adviser, 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 than 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 as part of the upcoming actuarial valuation process where the expected return will be taken into consideration.

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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 during the previous Scheme Year to account for significant changes in inflation assumptions and the liability hedging portfolio was rebalanced. The liability proxy will be reviewed as part of the 2023 actuarial funding valuation process.

20-23 – The Trustee, with assistance from WTW, monitors the asset allocation of the Scheme’s portfolio. Whilst the portfolio allocations moved outside of 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 and recognising the costs that may be associated with rebalancing. In September 2022, following the mini-budget announcement, the value of the Scheme’s assets (in particular, the LDI portfolio) fell in value as a result of the upwards shift in gilt yields. This meant that in Q3 – Q4 2022, the portfolio had drifted sufficiently away from its strategic target, and was rebalanced towards target in Q4 2022.

24 – As a result of the trading activity arising during the LDI crisis, the guidelines for the Scheme’s delegated alternative credit mandate have been updated to reflect changes in the credit type composition, liquidity and duration profile of the Scheme’s alternative credit assets. Over the period of market volatility, the Trustee agreed to temporarily waive a subset of the guidelines so that the Delegated Manager could assist the Trustee in meeting an elevated level of liquidity and cashflow requirements in the immediate term. Revised investment guidelines for the Delegated Manager were agreed in January 2023. Apart from this, 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 Pensions Team operates a cash management process, which is agreed with the IC.

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 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 Scheme’s Investment Adviser continued to evolve the performance reporting provided to the Trustee over the year to reflect additional collateral sufficiency analysis provided by the Scheme’s LDI manager. This is a result of the changes within the collateral management processes following the LDI crisis.

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, to further 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,

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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 has reviewed the fees in relation to these managers and engaged with the managers where appropriate. The Trustee met with the Scheme's LDI manager following the market events arising during the LDI crisis. One of the areas that was examined during the meeting was the level of transaction costs that were incurred over that period, given the high number of trades required to rebalance the portfolio and to maintain the Scheme's protection against interest rates and inflation movements.

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 Adviser 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 last reviewed its policy regarding responsible investments as part of the October 2022 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 these investments and their ESG credentials. In relation to the Scheme's other assets, the Trustee considered LGIM's ESG expertise and activities in this area as part of the review performed in 2021. The Trustee have scheduled a meeting with LGIM that will also cover their ESG approach in greater detail later in 2023.

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's 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 BlackRock during the Scheme Year including its policies and activities in the area of ESG. The Trustee investment decision making process and ESG implementation approach are coherent with the Scheme's time horizon and with the maturity of the membership profile. The Delegated Manager regularly assesses the underlying managers with regards to their ESG credentials. Over the Scheme Year, the Trustee began developing stewardship priorities that will help drive engagement within the stewardship themes that are deemed to be of more relevance to the Scheme. Climate has been identified as a key stewardship priority 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 Adviser. 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.

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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.

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, the exercise of voting rights does not apply to the Scheme.

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>

DC Section

Similar to the DB Section, voting and engagement are delegated to managers. The remaining part of the DC Section post transfer to Master Trust is very small in the context of the Scheme and, whilst the Trustee has the power to change investments, the nature of the investments and/or the benefits that underpin them mean that any change is currently expected to be potentially detrimental to members. 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.