UK Stewardship Code Signatory Application 2023

1 October 2022 to 30 September 2023

Contents

Introduction

Introduction

The last year has seen the most volatile gilt yields history. This has required Capita to act fast to meet leveraged cash call requirements, lock in any funding improvements, create robust collateral management solutions and provide new solutions to our clients.

We were also targeted by a Cyber Attack, and had to react quickly and effectively to minimise any adverse impacts on our clients.

Despite all of these challenges, we had a great year and it is difficult to fit our key achievements onto a page, but we have tried to the right.

In this report you will see more detail on the progress that we have made.

We hope that you will agree that Capita is a reliable and innovative service provider for Stewardship i.e. the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

George Allen
Chief Investment Officer

2023 Highlights

- **Pension Age: 'Thought Leadership Award' Winner for 2022**
- **New Credit-Linked LDI proposition to allow DB Journey Plans to keep on track following the gilts crisis**
- **Commitment to be a real living wage accredited employer in the UK**
- **Enhanced DB collateral management policies in place to prevent market/systemic risks of forced gilt and equity sales**
- **Expansion of our DC investment consulting team**
- **Improvement in employee satisfaction. Positive NPS for both Capita and Pensions Consulting**
- **Expanded our Pensions Consulting Marketing team to enhance awareness of the support we can provide**
- **Investment in technology, including further automation/digitisation of pensions admin services and enhanced use of Moody's PFaroe**
- **Updated Journey Plan monitoring reports to help Trustees of DB schemes focus on the stats that matter**
- **Merging of Actuarial and Investment practices to enhance Integrated Risk Management of DB schemes**
- **Expansion of our DB investment consulting team**
- **Improvement in client satisfaction. Positive NPS for both Capita and Pensions Consulting**
- **Reduced our carbon footprint by 4.6m tonnes and moved more of our clients into ESG-friendly investment products**
- **Exceeded our 2022 targets for number of females in senior roles (now 44%)**
- **Strengthened our defences against Cyber attacks**

Principle 1: Purpose, Strategy and Culture

Principle 1: Our purpose and values

We are driven by our purpose: to 'create better outcomes' for our employees, clients and customers, suppliers and partners, investors, and society.

We are committed to being a responsible business – in how we operate, serve society, respect our people and the environment, and deliver improving returns to our investors.

Capita 'creates better outcomes' for all it's stakeholders:

Our people by providing an environment in which they can thrive and develop.

50,000
Number of people in 2022

Clients and customers by delivering solutions, transforming businesses and services, and by delighting them.

35*
Customer net promoter score (cNPS) in 2022

Suppliers and partners by treating them fairly and encouraging them to deliver.

99%
Supplier payment compliance in 2022

Society by acting as a responsible business for the communities we serve.

4.6m gross tonnes
Reduction in carbon footprint in 2022

* NPS score represents the percentage of positive supporters subtracted by the percentage of detractors

Everyone at Capita strives to create better outcomes for all our stakeholders by living our values of being:

- Open
- Ingenious
- Collaborative
- Effective

We bring these values to life through our day-to-day behaviours and by putting our purpose at the centre of everything we do.

Principle 1: Strategy

What we do as a business

We provide consulting, transformation and professional delivery services, drawing on our practical experience; and provide digitally enabled services and solutions, often under multi-year contracts.

We work collaboratively with clients as partners, drawing on our experience and delivering solutions.

Our strategy is to create better outcomes, using our consult-transform-deliver approach. The long-term strategy of the core business is to be a leading customer experience service provider delivering better outcomes for our clients through a consultative approach underpinned by data and technology.

In 2022, we started to concentrate even more on our digital transformation capabilities; processes, standardisation and automation are all being improved. For example, several £m was invested in digitising and automating pension admin processes, Focused investment on digital is the way forward and, backed by clear strategic plans, will be the main driver of growth for us.

Our consultants

- Work collaboratively with clients as trusted, long-term partners
- Proactively identify opportunities within client businesses
- Generate forward-looking insights by analysing, researching, and debating trends and data
- Support the design and implementation of better solutions for clients (for example we developed a new Credit-Linked LDI approach for DB schemes in the earlier stages of their journey)
- Maximise opportunities across Capita, driving pipeline and creating pull-through revenue

Our strategy

Our expertise in delivering customer experience services in certain industries and geographies gives us the ability to understand our clients' challenges and put together solutions based on our technology, insight and digital platforms.

During the year we restructured the 'Experience' division to move to client-centricity in all offerings.

Our ambition is to provide best-in-class services within an advanced toolkit of services which can be tailored to client needs. This will use both in-house and third-party technology, such as the assisted customer conversation and augmented conversation technology which is now utilised on a variety of contracts.

Principle 1: Strategy

To create a simpler, stronger and more successful business that will drive organic revenue growth and sustainable free cash flow.

Simplify

- A focused business with strong positions and growth potential
- Using common, scalable capabilities
- Empowering our people to deliver
- Streamlining our cost base

Strengthen

- Winning more of the right work
- A stronger balance sheet through improving cash generation and disposal proceeds
- Addressed the pension deficit
- Investment in technology and people

Succeed

- Purpose-led, responsible business
- Innovative and creative
- Accelerating revenue growth
- Delivered positive free cash flow in 2022

Measured through KPIs:

Financial

Adjusted revenue
£2,845.8m
(2021: £2,777.8m)

Free cash flow before the impact of business exits
£29.0m
(2021: £(218.6)m)

Adjusted earnings/(loss) per share
6.20p
(2021: (7.74)p)

Headline net debt (pre-IFRS 16): Adjusted EBITDA
0.5x
(2021: 3.7x)

Non-financial

Employee NPS* points swing
+15pts
(2021: -22pts)

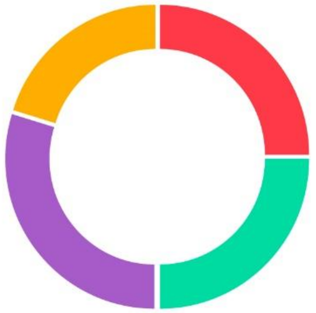
Customer NPS points swing
+6pts
(2021: -3pts)

Suppliers paid within 60 days
99%
(2021: 98%)

*NPS score represents the percentage of positive supporters subtracted by the percentage of detractors

Aligning with our performance-based remuneration:

Annual bonus for the executive directors determined by:



- Free cash flow
- Revenue
- Profit before tax
- Strategic/personal objectives

Principle 1: Culture

Our materiality issues – overall Capita

We asked our colleagues, investors, community groups and clients to tell us what global challenges they thought Capita should be addressing and influencing. This chart shows the result. Note this covers all services not just those related to pension schemes

We identified five material issues through this process:

- Youth unemployment and quality education
- Digital exclusion due to technological developments
- Gender inequality
- Climate change and resource scarcity
- Business ethics

Our strategy focuses on these challenges, prioritising them in the order in which we can have the greatest impact: driving greater social mobility, enabling better digital access, building a more inclusive organisation, and reducing our environmental impact. These four focus themes are underpinned by the central theme of operating responsibly.

Principle 1: Culture

At Capita, we remain committed to our purpose of creating better outcomes for all stakeholders – our people, clients and customers, suppliers and partners, investors, and society

We have also embedded our virtual first hybrid working model, introduced an employee leadership council, and continued to work on increasing diversity and inclusivity across the organisation, and addressing our pay gaps.

But to be able to delight stakeholders, including clients and customers, also requires an engaged workforce, who like and want to continue working for the organisation.

So, while we are pleased to have seen a rise in both our employee net promoter score (NPS) and engagement index, we must continue to focus on the welfare and needs of our colleagues.

The Board are committed to making sure they have the necessary skills, expertise and diversity to help support the delivery of Capita's strategy

For the past three years, we have been proud to support thousands of our lowest paid people as an accredited payer of the real living wage – and have recently invested to continue that important commitment.

The 2022 employee survey showed improvement across all metrics. We are developing and delivering a range of action plans, including ensuring our leaders feel confidence in, and ownership of Capita's strategy, plans and successes, developing inclusive opportunities for internal career mobility.

The commitment to being a purpose-led, values-driven and responsible organisation is now part of Capita's DNA. This means a constant, Group-wide focus on how we can deliver better for all our stakeholders – employees, shareholders, clients, end-users and communities.

Principle 1:
Diversity and inclusion

During 2022, we continued to build on our previous work to create a more inclusive workplace for all our people. This included:

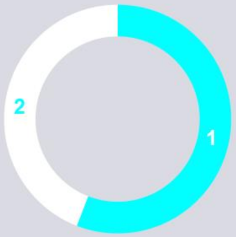
- Growing and supporting our eight global employee network groups. We currently have more than 15,000 network members.
- Expanding the use of personal pronouns on Workday, Outlook and Teams to ensure our colleagues are represented and supported in the way they wish to be recognised.
- Launching a new ‘life leave’ policy, to support employees with paid time off for fertility treatment, early pregnancy loss and more.
- Continuing to review employee survey results by protected characteristic and working with each of our employee network groups on results relevant to their area of focus.
- Developing a number of programmes to support the career progression of underrepresented groups.

Our focus on diversity

In 2022 we continued with our three diversity focus areas which are:

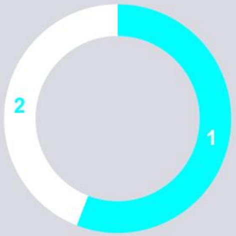
1. Women in senior leadership.
2. Ethnic diversity in middle and senior leadership.
3. Supporting colleagues with a disability.

Board



1 5 (56%) Male
2 4 (44%) Female

Executive Committee



1 5 (56%) Male
2 4 (44%) Female

Senior management*

1 73 (74%) Male
2 25 (26%) Female

All employees

1 24,240 (49%) Male
2 25,350 (51%) Female

* Senior management includes directors of subsidary legal entities as per requirements of the Companies Act section 414C(8)(c)(ii) and 414C(10)(b)

Key activities in 2022 included:

We exceeded our 2022 targets for women in senior roles. Our workforce is 51% female, and in our senior leadership roles 42% are female. In addition, both our Board and Executive Committee are 44% female.

We exceeded our 2022 targets for ethnic diversity in leadership roles. Our workforce is 21% ethnically diverse, including 7% Black, and our senior leaders are now 14% ethnically diverse (in the UK) and 3% Black.

In 2022 we were recognised as Disability Confident Employer (level 2) status across the Group, and we are working to achieve level 3 status in 2023. We are particularly proud of the work we did with the Capita ability network to support our colleagues with a disability, such as the launch of our adjustments passport to ensure that reasonable adjustments follow our employees throughout their career in Capita. We also increased our disability declaration level by 8%.

Principle 1: Responsible business

In 2022, we further demonstrated this commitment through the creation of a new ESG (environmental, social and governance) Committee of the Board, focusing on responsible business issues, and providing additional strategic oversight, accountability and guidance.

Our responsible business strategy, which was originally developed in 2019, has ensured that we remained focused on supporting the United Nations' Sustainable Development Goals (UNSDGs) as well as addressing the issues where we can have the biggest impact – through our own operations, and the products and services we provide to our clients.

Being responsible also means we're monitoring risk; understanding how economic trends, climate change, the digital evolution and other external factors may influence our business, communities, investors and people. We're also planning ahead to make good decisions for the future.

In 2022, our activities focused significantly on: building a more inclusive organisation and supporting our colleagues' wellbeing; tackling economic inequality and increasing digital inclusion; reducing our environmental impact and operating responsibly. Among the significant range of activities delivered, we are most proud of our continuing commitment to be a real living wage accredited employer in the UK, our science-based climate targets (we intend to be net zero by 2035), the significant progress towards our diversity goals, the launch of our Capita Leadership Council, our continued commitment to having an employee director on the Board, and our socially responsible resourcing programmes, including one that provides paid internships to ex-offenders. However, we also now need to respond to a rapidly changing external environment that includes an increasing understanding of the impact of climate change, a difficult economic situation and a cost-of-living crisis for our employees. We are, therefore, in the process of refreshing our responsible business strategy to ensure it focuses on the areas of greatest concern and effect.

Environmental, Social & Governance (ESG)

- We continued to make progress on delivering on our ESG objectives – and driving towards our target to be fully net zero on carbon emissions by 2035.To enhance how we serve and respect our stakeholders, including society and the environment, we have also introduced an ESG committee to the Board.
- Capita's ESG Strategy is guided by Capita's Purpose, set by the Board, to create better outcomes, for its employees, clients and customers, suppliers and partners, investors, and society.
- The ESG Committee will assist the Board in promoting the long-term sustainable success of the Company with regards to ESG matters ensuring Capita is a responsible business, in how it operates, serves society, respect its people and the environment, and delivers attractive returns to its investors.

Principle 1: Commitment to Net Zero

Climate Change Hub

Capita has a Climate Change Hub which has Carbon Reduction Plans. These plans assess which net zero targets they have already met and which they are working towards.

These are some of the future measures we are working towards:

- Migrating multi-tenanted properties we occupy to 100% renewable electricity.
- Improving efficiencies in electricity consumption.
- Improving data and reporting to improve accuracy of carbon accounting.
- Reducing commuting emissions through route planning and driver training.
- Reducing business travel emissions by further greening our fleet and optimising the use of online meeting tools. Transport emissions will fall as cars, trains and planes produce less carbon.

The Climate Change Hub can be found at https://www.capita.com/about-capita/climate-change-hub

Principle 1: Effectiveness of Pensions Consulting

We actively seek the views of our clients through an annual net promoter score (NPS) survey. In the survey we ask for feedback on our current performance. Customers are divided into 3 groups: promoters, passives and detractors, depending on how likely they are to recommend Capita services. The NPS score is negative when the detractors are more than promoters and positive when there are more promoters than detractors.

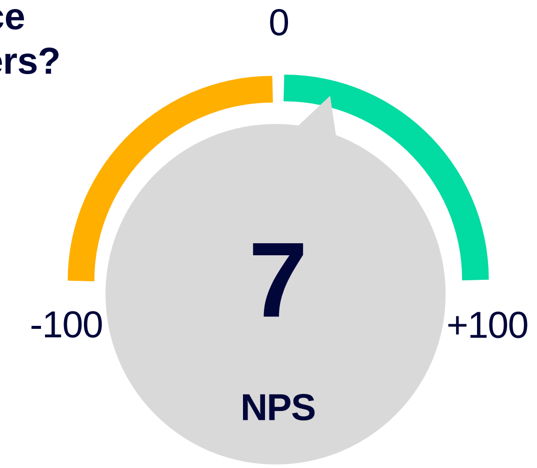
The overall NPS score is calculated as the percentage of promoters subtracted by the percentage of detractors.

Looking at clients of our Pensions Consulting team , we see 14 promotors, 18 passives and 11 detractors. When balancing the measured metrics of our services, we see more promoters than detractors which gives us a positive NPS score of 7. When asked how likely our clients are to recommend Capita as a provider of pensions services, our results show 12 promotors, 21 passives and 10 detractors. When balanced, we get an NPS score of 5. This is a great improvement on the 2021 score of –5.

These scores give us confidence that we are providing a service that our clients are happy with. We are not complacent though and are working to improve our service further.

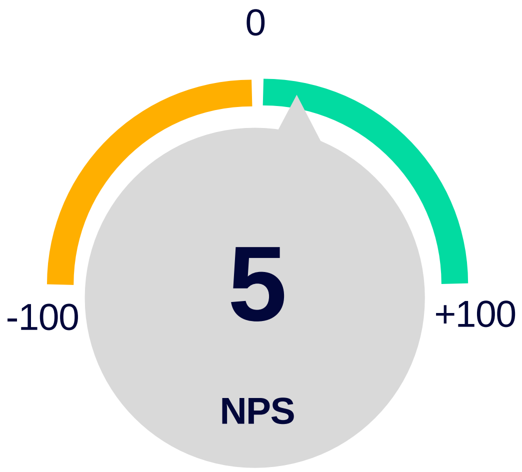
Overall, how do you feel about the service Capita provides for you and your members?

Promoters	14
Passives	18
Detractors	11



Overall, how likely would you be to recommend Capita as a provider of pensions services?

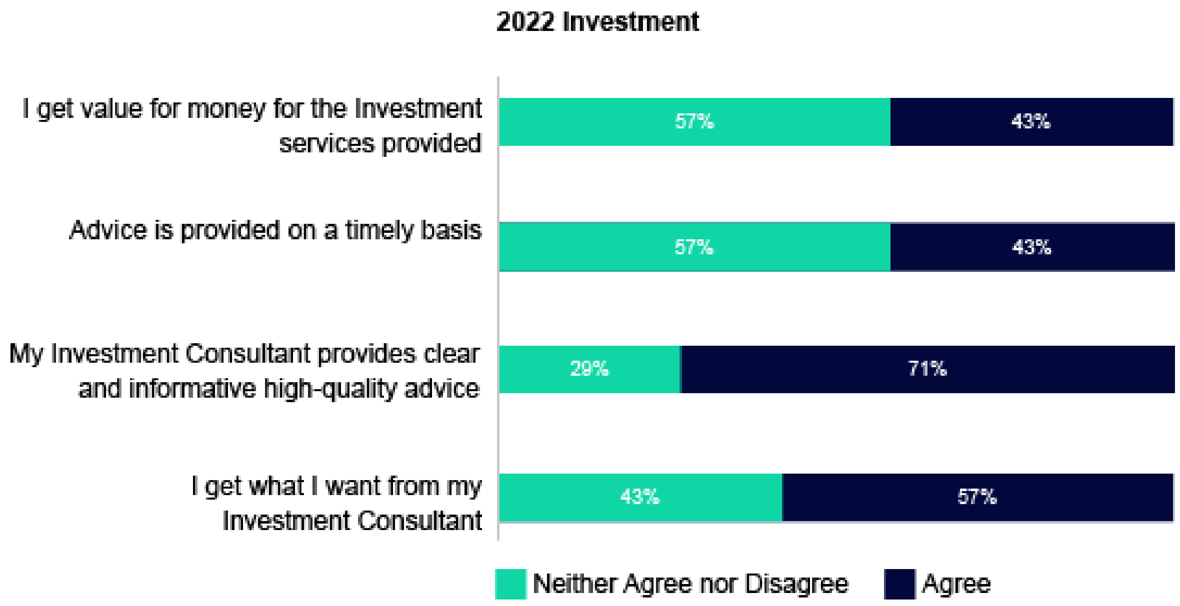
Promoters	12
Passives	21
Detractors	10

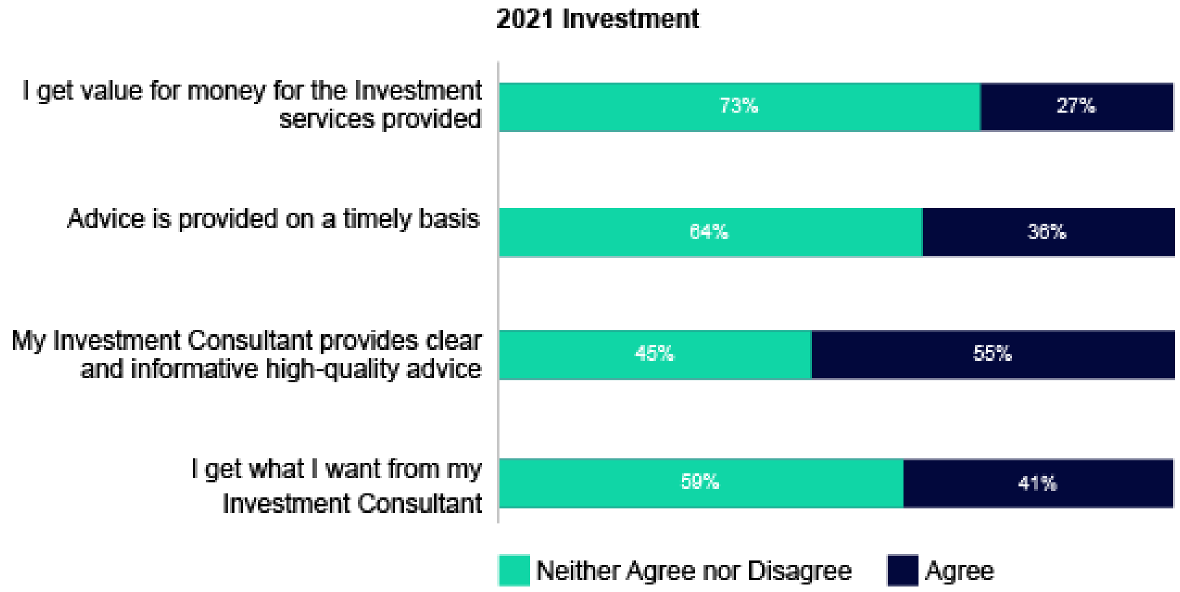


Principle 1: Effectiveness of Investment Consulting

A further system we use to measure our effectiveness is by directly asking our clients how we did in various areas.
This helps us to understand where we can improve our services and where we are achieving the best results.

In Investment Consulting, a sub-team within our wider Pensions Consulting team, a comparison of 2021 and 2022 results indicates an improvement in the services delivered to our clients.





Principle 2: Governance, Resources and Incentives

Principle 2:
Governance and Resources – Corporate level

Our governance structure

Board

ExCo Responsible Business Committee

Sets the strategy, within the parameters set by the Board, ensuring resources and budgets are in place to deliver responsible business.

Responsible Business Function

Executes business-wide strategy on our approach to responding to the global challenges that our business and society face, delivering programmes of work to create better outcomes for our people, our communities and the environment.

Divisions | **Function**

Accountable for embedding responsible business across our global operations through every employee conversation, every client interaction, every contract discussion and everything we do at Capita.

Divisional Overview

Capita operates across three divisions : Public Service, Experience and Portfolio, employing 11,700, 31,000 and 3,000 individuals in each division, respectively. Capita Public Service provides services that aim to enhance the efficiency of government operations and improve the experience of citizens interacting with public services. Capita Experience specializes in designing, transforming and delivering frictionless experiences. Capita Portfolio is an expanded portfolio of valuable but non-core businesses.

Capita Pensions is a part of Capita Experience which offers a wide range of services such as: Pensions Administration, Pensions Consulting and Pensions Data Solutions.

Capita Pensions Consulting sits within Capita Pensions is made up of Actuarial Consulting, Investment Consulting and DB and DC Consulting, comprising of 160 individuals.

Capita Pensions Consulting has its own leadership team, as it is effectively a business in itself albeit operating within a much larger corporate organisation.

Principle 2:
Investment in systems, research, process and analysis

The Responsible Business Hub:

- In 2022 the Responsible Business Hub was set up as a resource for research, policies, news and analysis, including climate change: **www.capita.com/responsible-business**
- The Responsible Business Hub has been used by Capita colleagues throughout 2023.
- Responsible business is integral to our company purpose, operating model and strategy. It demonstrates how we are acting as a force for good – creating better outcomes – for today, for tomorrow and for generations to come.

Capita has also invested in the following over the last year:

- Training - we have rolled out a series of mandatory Cyber Security training sessions across the whole of Pension Consulting.
- Efficient operations - during 2022, our operating profit margin improved from a negative 2.8% to positive 3.6% through efficiencies from the business structure we implemented in 2021, reducing the cost of poor quality and adopting efficiency-generating technologies such as automation. Several £m was invested in digitising and automating pension admin processes
- Capita increased commitment to growth - recognizing the potential of technology and consulting, Capita's leadership has prioritized these as key growth sectors.
- It has increased its investment in consulting by establishing a dedicated team for marketing within pension consulting, with the aim to help grow the business. Moreover, within investment consulting, Capita have brought in a DC senior consultant to further improve resource levels and drive business growth.

Principle 2: Governance and Resources: Investment Consulting team

Ben Kwai
Head of Investment and Actuarial
27 years industry experience and 17 years investment experience

Israel Cohen
Practice Leader of Investment Consulting
25 years industry experience and 23 years investment experience

George Allen
Chief Investment Officer
15 years industry experience and 12 years investment experience

Jason Becker
Senior Investment Consultant (DC)
20 years industry and investment experience

Kemi Olaiya
Head of Asset Transitions
27 years industry and investment experience

Robert Stone
Investment Consultant

Benjamin Tran
Senior Actuary

Phil Crookston
Actuarial Consultant

Lionel Suares
Investment Consultant

John Thornton
Actuarial Consultant

Ben Crabbe
Associate Investment Consultant
Working towards FIA

Brad Bennett
Associate Investment Consultant
Working towards CFA

Jesal Rathood
Actuarial Consultant

Sheena Islam
Investment Analyst

Adam Crooks
Investment Analyst
Working towards FIA

Ana Farinha
Senior Investment Analyst
Working towards CFA

Emmy Munyaka
Investment Analyst
Working towards FIA

Jessica Jablonski
Investment Analyst
Working towards CFA

Peter Prebble
Asset Transition Specialist

Principle 2: Governance & Resources Investment Consulting

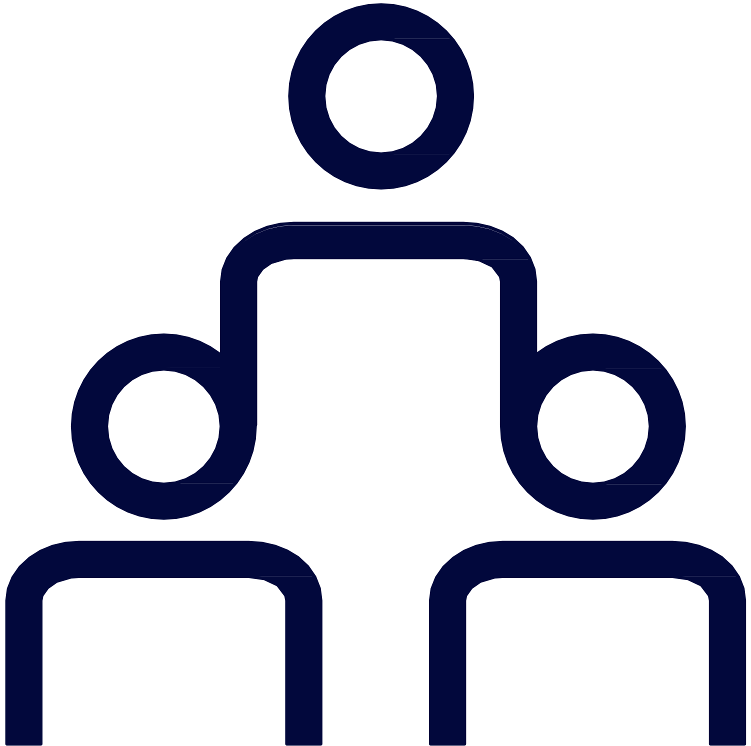
Seniority and Experience: Our Investment Services, a part of the Pensions Consulting Practice, are delivered by experienced colleagues, with a team of 19 individuals, which is an increase from 2022. The Investment Consulting team at Capita has a Senior Investment Committee comprised of Ben Kwai, Head of Actuarial and Investment, Israel Cohen, Investment Consulting Practice Leader, George Allen, Chief Investment Officer and Jason Becker, Senior DC Investment Consultant. The senior members of the team are well established and experienced with 22 years average industry experience.

Qualification and Training: Capita is keen to encourage further learning and most analysts are currently studying for exams with the CFA or IFoA. Consultants are supervised under the Professional Standards Framework and are SMCR registered. They are required to obtain at least 15 hours of CPD per year, but most consultants complete around 30 hours annually. Our investment consultants hold professional qualifications such as the IMC, CFA or fellowship of the IFoA.

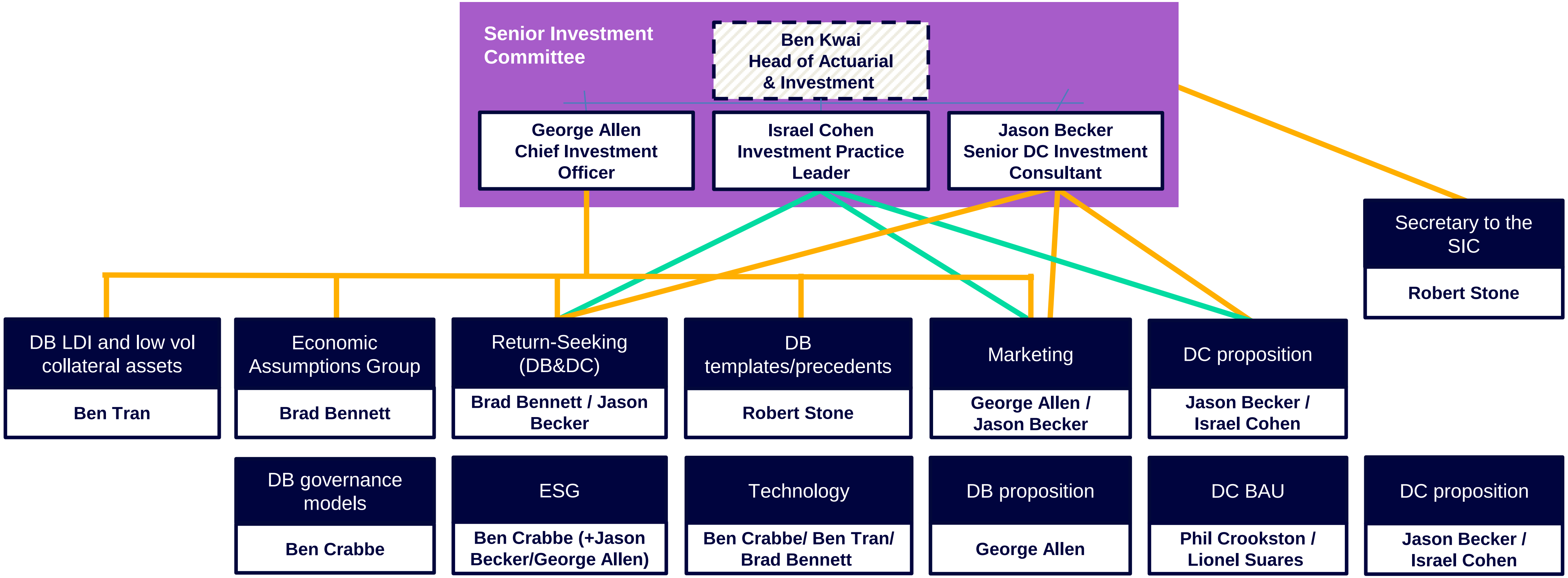
Capita's **Professional Standards Framework** governs the authorisation of our investment consultants. It ensures that they not just meet but exceed the requirements of the FCA for a suitable and qualified investment advisor for occupational pension schemes. Consultants attend a variety of industry events and in-house training, and read trade press. This, alongside the day-to-day support offered by our in-house Technical Support team, ensures that our consultants are fully aware of the various complexities and challenges facing clients and ensure that all current issues are on the client's agenda to be addressed.

Our consultants are incentivised to deliver quality advice to clients and build long term relationships. The remuneration is a combination of salary and bonus, with bonuses reflecting the success of Capita as well as the contribution the consultant has made to the business, to clients and client feedback, and to help improve the offering to clients.

Diversity and inclusion: The Investment Consulting team reflects the diversity of Capita's wider communities, understanding that all the differences in peoples' skills, education, experience, background, age, working style, religion or belief, sexual orientation, race, gender, and other individual characteristics drive greater effectiveness in decision-making through diversity of thought. It's also the right thing to do. Regular mandatory training sessions are held for staff at all levels.



Principle 2: Governance and Resources
Investment Consulting Research & Proposition



Principle 2: Governance & Resources Investment research & proposition: Depth with agility

Each of the more experienced consulting colleagues lead or co-leads on research and proposition development in at least one area, ***bringing our experience of consulting issues into manager research and our manager research experience into our consulting***.

People management: In 2023, we altered the team structure so that the Chief Investment Officer would have no formal line manager responsibilities. This allows the CIO to focus their time on important research, developing house views, producing and delivering business plans and investment strategies.

House view focus: Our senior investment committee meet regularly to discuss and determine a number of topics including our house views and manager ratings. We generally seek to have a house view in all areas, in order to:

- achieve consistency across consultants, with all clients receiving the "best ideas" from across the team, and to limit "key person risk" to our clients (to avoid clients having a strategy which is linked to an individual consultant); and
- seek to ensure broad consistency across clients, in order to achieve efficiencies and economies of scale to control costs.

House views form a starting point for scheme specific advice but consultants have the flexibility to appropriately tailor advice to suit individual Scheme's needs. All advice is discussed and peer reviewed before being issued. This peer review process is critical to ensure that all advice has been thoroughly checked by at least one other senior individual, and been verified that it is appropriate for the situation, and consistent with house views.

Consultants discuss any large deviation from house views with the senior investment committee, which ensures that we (i) always deliver well-considered client specific advice, (ii) build up a bank of precedent cases to compare against, and (iii) dynamically evolve our house views over time to reflect our clients' needs.

Principle 2: Governance and Resources Investment – Asset transfers

Depth with agility

Capita has its own in-house Asset Transfer team led by experienced financial services specialist, Kemi Olaiya.

The Asset Transfer team provide standard and bespoke services to our Investment Consulting clients and are on hand to expertly execute each project as well as providing operational support to the wider Investment team.

In addition, the Asset Transfer team identify operational issues and automation which may impact the transition project as well as the ongoing servicing of the client investment portfolio. Furthermore, the team coordinate any onboarding/account opening required to facilitate a transition project. The specialist team deal with both individual investment managers and investment platforms.

Having a dedicated team ensures that there is a single point of contact for all queries and issues, meaning clients have a specialist team working on their behalf.

The **risk of errors is vastly reduced** since all transfer documentation prepared is peer reviewed first by the client Investment team and then independently by the Asset Transfer team before any transactions take place.

Principle 2: Technology and fees

Fees: Fees should not only provide value for money but they should also be inclusive and predictable without compromising quality and service. Capita tries to ensure that fees remain sustainable and commercially viable and that fixed fees typically would increase annually in line with National Average Earnings, and estimates would only be revised subject to events such as:

- A change in scope or requirements as part of ongoing discussions or future initiatives
- A change in length of contract
- A change in benefit structure or the addition of a new scheme or section
- A material change to the assumptions made when responding to the RfP

Where possible, for any significant project work a fee is agreed prior to starting work.

Capita review client fees on a regular basis and take into consideration any feedback received during tender processes and from the Professional Trustee community. Capita are confident that their fees are both fair and consistent and are competitive relative to peers, as supporter by our NPS survey results mentioned earlier.

Technology: The Investment team, as with the wider consultancy practice, make use of technologies such as **PFaroe** and **Refinitiv** and believe that technology is pivotal to the delivery of our investment services. The same technology is used as part of delivering actuarial services

In 2023, we made a shift from Bloomberg to Refinitiv for the procurement of market data. This is because Refinitiv was more cost effective and challenges from our Bloomberg account stemming from their system modifications. By switching to Refinitiv, we gained clearer insights, allowing us to dig deeper into the required statistics. Additionally, Refinitiv offers a broader range of statistics, allowing us to make more informed decisions.

Refinitiv is used for access to live market data from a wide range of sources which assists in giving accurate "**hot off the press**" market updates at all client meetings. It is also utilised to populate an in-house weekly markets update, covering all major areas of interest, in addition to ad-hoc updates in light of big developments. This is extremely beneficial to Capita and our clients, particularly during a very volatile period, and helps us to **keep clients informed**.

Technology is a key part of our offering - PFaroe

PFaroe is used for all our asset liability modelling, and this analysis is integral to all investment strategy reviews. PFaroe is also utilised for updating clients, including funding level, current Value at Risk ('VaR') and risk analysis as well as the latest liability hedging ratios. In 2023, **Capita increased the number of clients who have access to this dashboard, providing better transparency to pension schemes.**

Over the past year, we have incorporated newly released modules in PFaroe and have utilised the added features to enhance our services. One of the modules we now have is the Combined Module. This module helps us to analyse the assets and liabilities simultaneously to allow us to understand how well hedged a client is against interest and inflation movements. Due to volatile market conditions across late 2022, it is important for us to make use of these tools.

A change in scope or requirements as part of ongoing discussions or future initiatives

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Principle 2:
Further incentives

Enhanced incentive plan within Pension Consulting.

The Pension Consulting team have made changes to its incentive plan. A key change to the incentive plan over the last year is the inclusion of all team members, moving away from the previous approach that only included senior employees.

The incentive payout is based on the financial performance of Pension Consulting as well as individual performance and achievement against objectives.

Individual objectives cover various areas relevant to the success of our business (including important ‘non financial’ objectives such as those relating to service levels and responsible business).

Objectives have been developed and made more consistent across colleagues to ensure that our colleagues are motivated in the right way and treated fairly.

Principle 3:
Conflicts of Interest

Principle 3: Conflicts of Interest

What is the purpose of our policy?

Our policy sets out the arrangements for identifying and managing actual or potential conflicts of interest between members of Capita's workforce (which includes all employees, contractors, temporary and other workers) and subsidiary companies within the Capita plc group.

Within Capita Pension Solutions (and in particular Investment Consulting) it is also to provide our clients with advice that is unconstrained, and seen to be unconstrained, by other interests. It is important that, in addition to actual conflicts, we also recognise any potential conflict scenarios.

Who does it apply to?

This applies to all members of Capita's workforce who might have a potential or actual conflict of interest with any Capita business. In addition, statutory directors of a Capita subsidiary company are subject to specific legal requirements in relation to conflicts of interest.

In addition, all employees of Capita Pension Solutions must take reasonable steps to ensure they are aware of any interests that might create a conflict. They should also be alert to situations where others might perceive there to be a conflict even where there isn't one.

Capita plc recognises that, in the normal course of business, and to comply with applicable legal and regulatory requirements, there is a requirement to identify and manage conflicts of interest.

This maintains the trust and confidence of Capita's stakeholders across all operations. Capita therefore has its own conflicts of interest polices at both Group and local level.

The Capita Group Conflict of Interest Policy can be found at https://www.capita.com/sites/g/files/nginej291/files/2023-09/Conflicts_of_interest_Policy_July_2023.pdf. Local policies are stored internally and are available for all employees to view.

Principle 3:
Conflicts of Interest – Capita plc

Appointment of Directors

On their first appointment as director of a Capita subsidiary registered in the UK, directors are given information regarding their duties as a director and asked to disclose any relevant conflicts of interest. In addition, standard Articles of Association have been adopted across all UK subsidiary companies, wherever possible, that include a standing authorisation for directors to hold directorships of other Capita subsidiaries.

We arrange for statutory directors to make an annual declaration regarding actual or potential conflicts of interest, including related parties and related party transactions, so any conflict can be considered and, if appropriate, authorised by the Executive Committee. The authorisation of actual or potential conflicts of interest provides certainty for individuals who might otherwise be concerned about the impact of a potential conflict on their role and position, and protects Capita from loss or reputational harm. The Company Secretarial team operate the annual declaration process.

Principle 3: Conflicts of Interest

Third party benefits

Section 176 of the Act prevents statutory directors from accepting benefits from a third party conferred by reason of their position or actions (or omissions) as a director. However, this duty is not infringed if acceptance of the benefit cannot reasonably be regarded as likely to give rise a to a conflict of interest.

The Pensions Consulting Practice must also ensure that our relations with providers cannot call into question our professionalism or lead to a potential conflict of interest.

All staff members must be aware of the Gifts & Entertainment Procedures and the requirement to notify of any gift or entertainment event offered/received with a value in excess of £150. Smaller value gifts or entertainment can be approved by the relevant Practice Leader.

There may be a contractual obligation with some clients to report on amounts of less than £150. In these instances, it is the full responsibility of the business teams to complete and maintain their own records locally. This is then approved by the relevant Practice Leader.

Investment Consulting staff are also subject to additional requirements. During the year our investment consulting team attended numerous industry events for research purposes but received no gifts or entertainment greater than £150 in value.

Conflicted trustees

Although not a direct Capita conflict of interests, the Investment team are acutely aware of conflicts of interest that can arise with Employer Nominated Trustees. As a trustee to a scheme, and a Capita client, it is our responsibility to remind them that their duty as a trustee is to act in the best interests of the scheme members.

When a pension scheme has a funding deficit, a Sponsoring Employer may be incentivised to push for less prudent actuarial assumptions and for the scheme to take on more investment risk to reduce the need for employer contributions to close the funding gap.

This approach essentially transfers risk from the company to the scheme, and ultimately puts members benefits at risk. Ordinarily, a trustee will always look to act in members interests, but in this situation, an Employer Nominated Trustee, will clearly be conflicted. Therefore, Capita will remind them of their duties as a trustee to ensure that they do not exert undue influence over other trustees, and an appropriate, acceptable solution is achieved.

This is an issue that we encounter in our day-to-day business, so all of our staff are trained to be aware of these situations and how to best address them in a professional manner.

Principle 3:
What we expect from our employees

All workers are expected to avoid conflicts of interest and to collaborate with divisional and central teams responsible for implementing processes to identify and manage conflicts.

Statutory directors, who are subject to a formal legal requirement to avoid conflicts, are expected to make an annual written disclosure of their related parties, related party transactions and any actual or potential conflicts of interest.

Divisional management teams are expected to make arrangements, in collaboration with their divisional risk and compliance teams, to identify and manage conflicts of interest of non-statutory directors within their divisions.

Speak Up Policy

We are committed to high standards of corporate behaviour towards our people, customers, consumers, governments and the communities in which we operate. Openness is a core Value.

Our Speak Up Policy sets out the channels available to our employees.

No action will be taken against an employee if they report a genuine concern, whether proven or not.

Principle 3:
Conflicts of Interest – Investment Consulting

All other actual or potential conflicts of interest, not relating to a statutory directorship, should be identified and, if appropriate, authorised by the relevant business unit and divisional management team.

New clients – Conflicts Check

- A potential conflict of interest must be identified as part of the bid and acquisition process before tendering for, or commencing, work.
- Before taking on a new client, the allocated consultant checks our internal database to ascertain whether we provide any services to the proposed client or the scheme sponsor.
- Where any potential conflict of interest is identified through this exercise, it is then escalated accordingly.

Know Your Client

- Fundamental to the process is a clear understanding of who our client is in any circumstances. Having a client agreement that is clear and comprehensive is critical.
- The client agreement/appointment letter is always clear about the services we provide. It is often equally as important that each party understands which services are not provided (or not included within the fee quoted in the agreement). We are therefore also aware of other advisers who might be providing advice to our client in areas that overlap with our services, and ensure that it is clear which services we provide.

When a conflict or potential conflict has been identified, the situation is escalated to our Professional Standards 'Practice Area Specialists' (PAS) for further consideration.

The Professional Standards PAS will then ensure, in conjunction with the staff member and the line manager if appropriate, that the required action is taken to manage/avoid the conflict, including escalation to the Head of Actuarial and Investment, our Compliance Support team and Risk Committee if necessary.

Escalation is made through the completion of an Escalation Form.

Principle 3: Conflicts of Interest

Examples of situations giving rise to a conflict of interest are:

01

Where there is conflict at an organisational level. There could be a team advising the trustees and a separate team advising the employer of a scheme.

02

A team could be providing advice to one or more clients in a particular industry or who have differing interests through a corporate transaction. There is a duty of care owed to both.

03

An individual could be acting for the trustees of a pension scheme and for the employer sponsoring that scheme giving them the potential for a conflict of interest at an individual level.

Principle 3:
Conflicts of Interest – Investment

Capita's Investment Consulting team ensure that they adhere to the Conflict of Interest policy throughout all activities.

All staff are responsible for keeping our in-house conflicts of interest register up to date, including any events that they have attended or gifts they have received which could cause a conflict. Prior approval is also required from the board for any gift/event of high monetary value.

This demonstrates Capita's willingness to practice correctly and avoid any situations which may contain conflicts of interest.

Example activity

A Capita consultant declared a close family friendship with a key Company Director who was also an Employer Nominated Trustee on the Company's DB Pension Scheme. Capita advise the Trustees of the Scheme (whose task is to act in the best interests of the scheme members, not necessarily in the best interests of the Company). To steer clear of any potential conflicts, that Capita consultant was not assigned to work on the Scheme, instead another non-conflicted Capita consultant was assigned.

We are committed to avoid putting ourselves in a position whereby our own interests, or our duty to any persons on behalf of whom we are acting, conflict with our duty to clients, customers, employees and companies in the Capita group.

Principle 3: Conflicts of Interest

Resolution

Policies and procedures
It is permissible for potential conflicts of interest to be managed by way of a stated policy or procedure approach which might or might not be disclosed to clients. An example of this is the potential use of "Information Barriers" (see below).

Disclosure
If we become aware of a (potential) conflict of interest that, taking into account Conduct Risk and ensuring that we that are treating customers fairly, can't be mitigated by standard policies and procedures, we consider the disclosure of the conflict risk to the client.

The Professional Standards PAS will liaise with the Capita Pensions Solutions (CPS) Compliance Support team in assisting in the preparation of any conflict of interest disclosure material. Disclosure means that the general nature and source of the conflict must be clearly disclosed to the client in writing.

Avoidance
Where a conflict of interest cannot be managed by way of policies and procedures and disclosure, it must be considered whether it is appropriate to cease/not commence the business activity. Again, the Professional Standards PAS/Compliance Support team will assist with this.

Review and maintenance of a conflicts of interest register

It is a requirement of the FCA and Capita policies, that CPS maintains a Conflicts of Interest Register.

"Standard" actuarial conflict register
Nearly all actuarial clients require the management of potential conflicts between the interests of the trustees and the sponsoring employer. Therefore, office Practice Leaders maintain a register of all clients setting out the roles of each Actuary performing work in respect of the Scheme. The register is supervised by the Professional Standards PAS and held on SharePoint on the Pensions Consulting Professional Standards site.

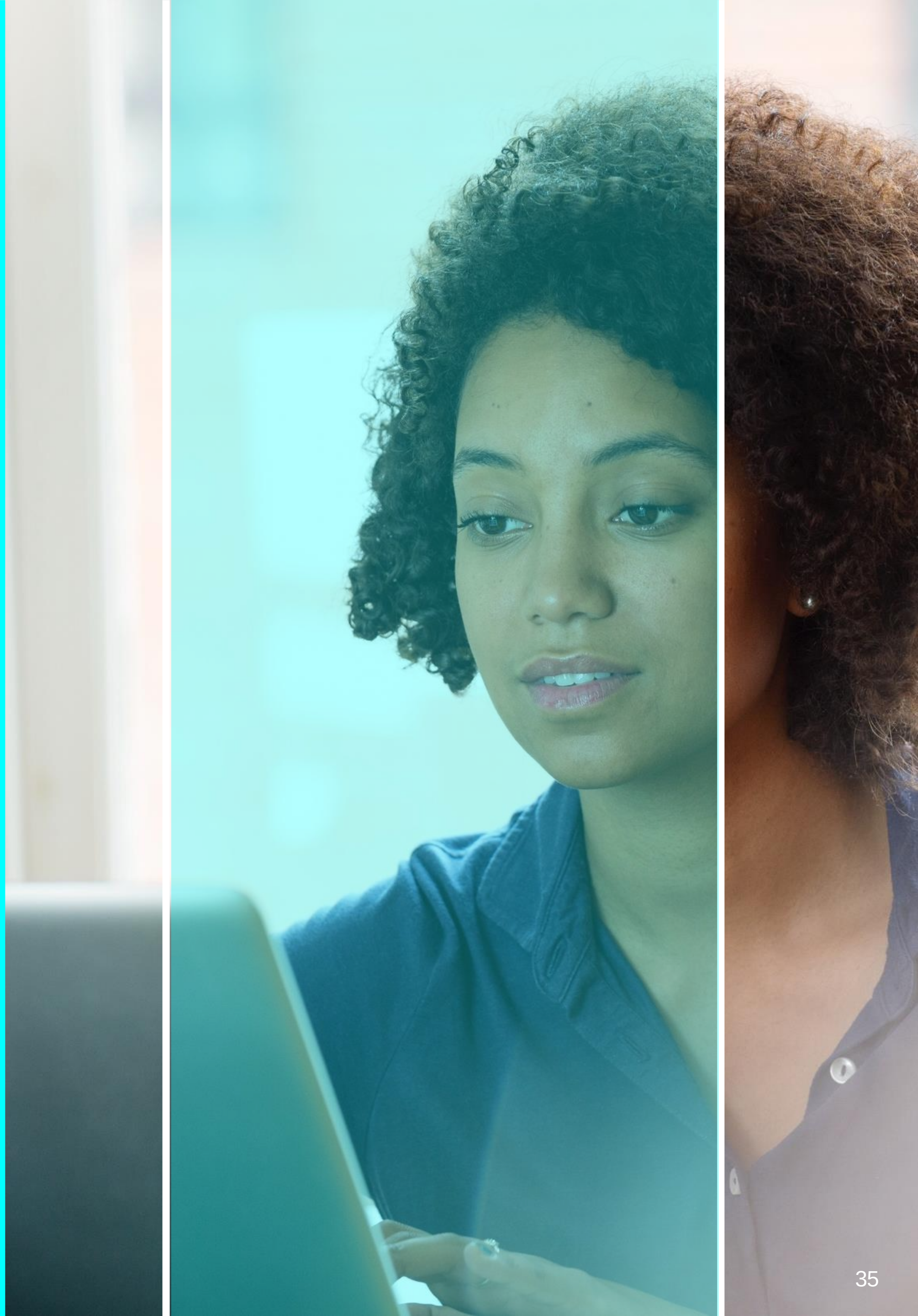
"Non-standard" conflict register
Information on other potential or actual conflicts will be obtained through the detail provided by individuals. This will be used by the Professional Standards PAS to maintain a local Pensions Consulting Conflicts Register and to escalate established conflict cases to the Compliance Support team and the main CPS Conflicts of Interest Register.

Having identified a conflict, employees should document their reasoning behind their decision to act or not, including steps taken to reconcile the conflict.

Principle 3: Appropriate employee training

There is a computer based training module on **'Regulatory Conflicts of Interest'** which must be completed annually by all Pensions Consulting members of staff.

In addition, periodic training sessions will be conducted.



Principle 3: Information barriers

Where a (potential) conflict is identified between two advisor teams within Capita, the following information barriers are put in place to prevent leakage of information from the employer's adviser to the Scheme Actuary and vice versa for example.

01

IT systems

A file directory structure is put in place where reasonable and practical steps are taken to minimise the risk of inappropriate or unauthorised information transfer.

02

Files

The advice and calculations of the trustee and the corporate advisers are located in separate files. It is always difficult to work out how restrictive to be as regards to who can have access to what client information. Being too restrictive over access to client folders can be inefficient for getting client work done, especially at times when the "normal" person is not in the office and other team members have to assist. This means that we all have to be professional about access to client folders. We do not access any data except when it is necessary for a piece of work. Any inappropriate access to data will be a disciplinary matter.

03

Use of specialists

Pensions Consulting makes use of specialist individuals and teams to cover in-depth specific technical topics. Where either of the advisers or advisory teams have recourse to internal specialist or technical back-up, they consider whether this could give rise to any inadvertent breach of confidentiality, and act accordingly.

Principle 3:
Information barriers continued…

04

Flow of information

Any information which is transferred internally between the CPS advisers and their advisory teams has to be pre- authorised by the trustees and/or the employer as appropriate, and that pre-authorisation is documented to provide an audit trail.

05

Training and procedures

Training on the requirements not to leak information are given by the trustee and/or corporate adviser in a timely manner, to all Pensions Consulting employees who are involved with a scheme in a conflict scenario (in either capacity).

It is acknowledged that no internal information barrier is perfect. All such barriers are to some degree susceptible to accidental (or deliberate) subversion. The continued acceptability of the current arrangements, that to some degree must rely on trust and professionalism, will ultimately depend on the nature and sensitivity of the work.

Deliberate or accidental leaking of information might mean disciplinary matters that will be treated with due severity bearing in mind the specific circumstances, and could in extreme situations result in dismissal. It is noted in this context that the professional requirements of APS P1 extends to “Members other than Scheme Actuaries, including students, undertaking work in relation to pension schemes”.

Principle 4: Promoting Well- functioning Markets

Principle 4:
What are the risks?

We, at Capita, are highly collaborative and mindful when it comes to understanding many types of risks and how to mitigate them. This allows us to clearly explain the potential impact of these risks to our clients, but more importantly, how to take appropriate precautionary actions to reduce risk.

Market-wide risks are those that lead to financial loss or affect overall performance of the entire market and include but are not limited to:

- Changes in interest rates;
- Geopolitical issues; and
- Currency rates.

Systemic risks are those that may cause the collapse of an industry, financial market or economy, and include but are not limited to:

- ESG including Climate Change; and
- Leverage.

At surface level, team members are encouraged to read relevant articles, actively engage in work-specific conversation and collaborate with the team to generate ideas regarding the overall direction of the prevailing macroeconomy and emerging investment trends. This helps the team develop a base which then can be applied to client-specific work.

The team is always actively arranging time to give presentations on new findings on the back of attending industry conferences. Similarly, the team arrange time with investment managers to discuss current talking points. A key discussion topic lately has been the rapid rise in gilt yields during the September/October 2022 crisis. This resulted in improved funding positions for schemes that were underhedged, leading them to consider buyout. An example is a recent discussion with an investment manager who presented buyout aware strategies, and how they can be tailored according to a scheme’s liability profile.

Given the nature of pension funds, it makes sense that many of our clients are risk averse and have a longer time horizon. At Capita, we avoid speculative assets and help clients to focus on longer-term strategies.

Principle 4:
Client testimonial on Credit Linked LDI

As a Trustee we appreciate the LDI concept, and having hedged our liabilities since we first partnered with Capita in 2014, our funding level has generally stayed on track despite huge movements in our scheme's liabilities in both directions in response to gilt market movements. We've always allocated a significant part of our portfolio to growth assets to help close the deficit to Low Dependency and our "growth + LDI" strategy has served us well over the years with the Employer not having to pay deficit repair contributions into the scheme. Our proactive Capita team have highlighted the challenges of trying to generate the same level of target investment returns in the new environment whereby LDI and the related collateral pool takes up a greater share of our investment capital. We are grateful that Capita and our LDI manager have developed the Credit-Linked LDI solution which enables us to continue to pursue the same target level of investment growth whilst still being able to retain the full hedging of our liabilities. What's more, Capita's modelling has shown that the new strategy is expected to be less risky than the legacy strategy whilst still having the same target return. Great work Capita!

Principle 4:
Movement in interest rates

The reporting period saw a significant increase in government gilt yields and changes in the regulation of the Liability Driven Investment (LDI) funds.

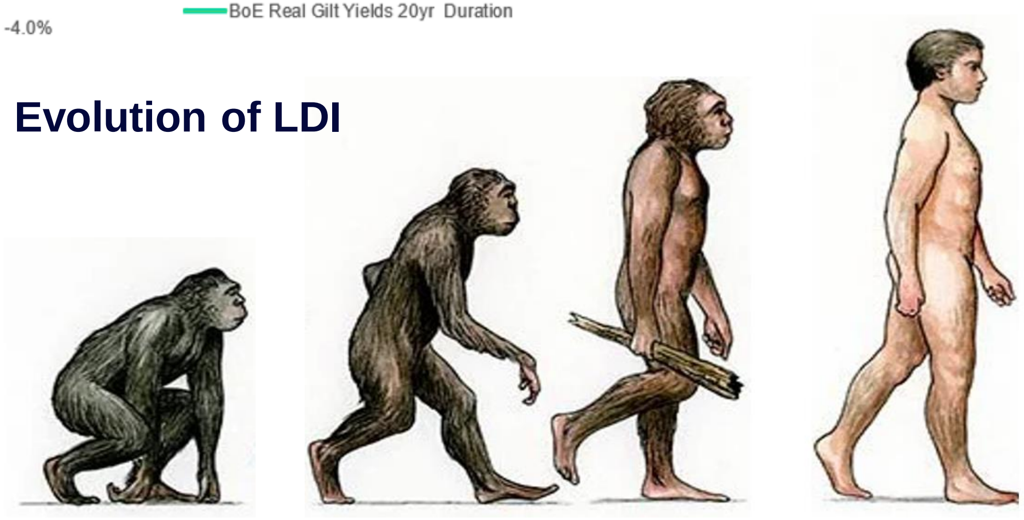
These changes saw our clients split into two categories:

1) Those who were **under hedged** against interest rates saw significant funding level improvements and hence leaped much further along their Journey Plan. For these clients we developed our Journey Plan reporting and carried a large proportion of our clients to a ‘Buy Out ready’ portfolio over the period to prepare them for Buyout. Consolidation via Buyouts helps avoid market-wide risks of many small schemes being run-on in a cost-inefficient manner and avoids idiosyncratic risks.

2) Those who were **well hedged** via use of leveraged products faced collateral constraints and loss of expected returns because of their Liability Driven Investment (LDI) portfolios becoming more capital-intensive. We enhanced clients’ collateral management processes and introduced Credit Linked LDI in collaboration with third party LDI managers, to increase expected returns to make more efficient use of the capital available.

Where could gilt yields go from here?

Evolution of LDI



No liability hedging target
liabilities and assets unmatched

Pooled LDI v1.0
(to October 2022)
Matched against interest/inflation rates
But not built to withstand gilts crisis

Pooled LDI v2.0
(October 2022+)
Lower leverage levels to withstand greater volatility in gilt market

Credit-Linked LDI
Introduce credit exposure alongside gilt/swap LDI to increase returns and better hedge the end objective

Principle 4: Improved Collateral management

Prior to the gilt crisis in September/October 2022, some of our clients still had manual collateral management policies in place.

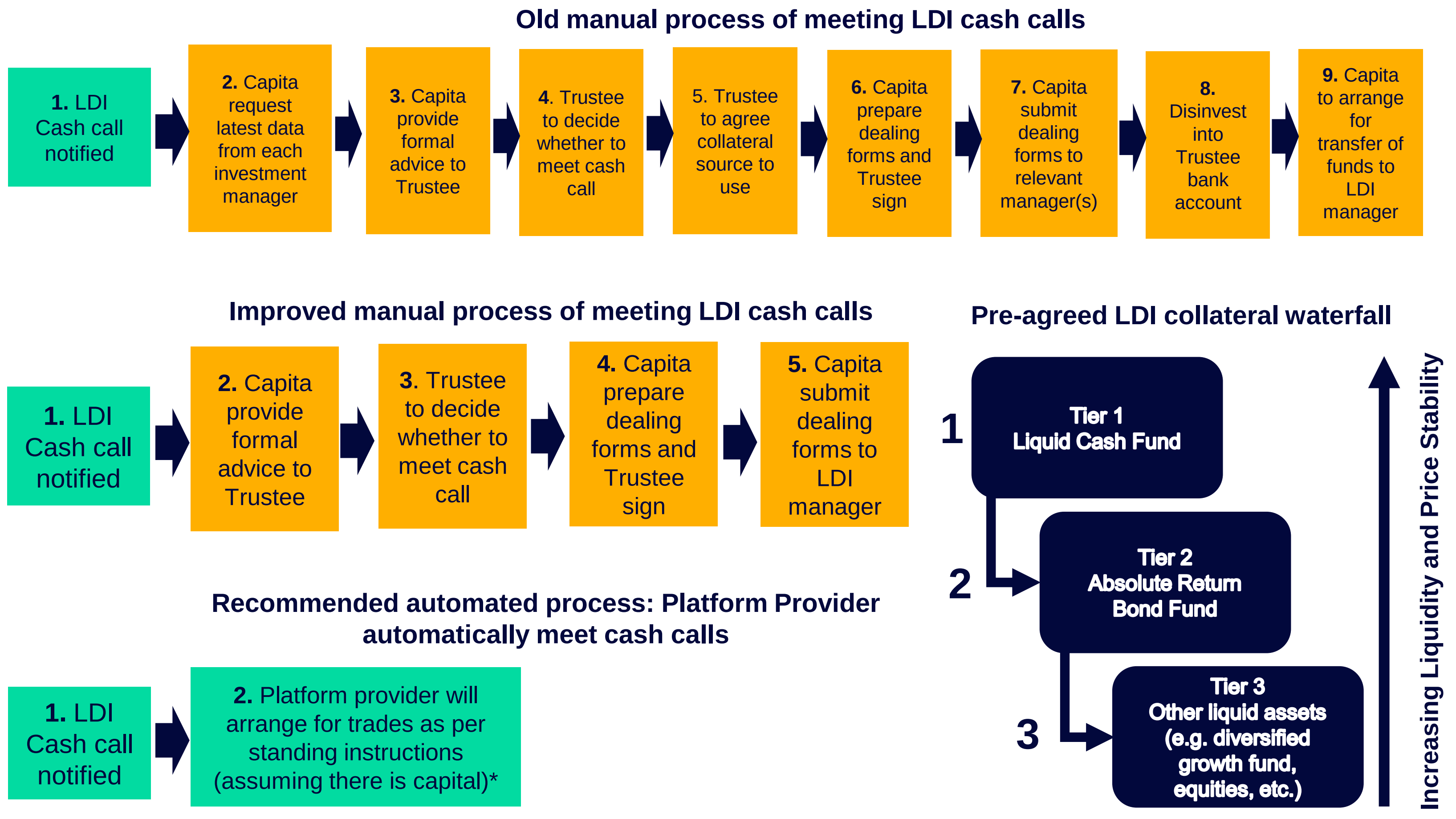
During the crisis, Capita colleagues worked around the clock to help ensure that collateral calls were met (thus helping to prevent systemic risk of forced gilt sales across the market). Most collateral calls were met.

Following the crisis, we recommended to all clients using LDI that they had robust 'collateral waterfalls' in place.

This would ensure that collateral calls were met and the schemes hedging protection remained at the required level.

We have also been advising clients to hold sufficient capital in relatively stable collateral assets (like Absolute Return Bonds) to help mitigate the systemic risks of riskier 'growth' assets like equities being sold at a loss to meet collateral calls.

Trustee Actions Required to Meet Cash Call



Principle 4: Enhanced reporting for the Journey Plan

Capita have developed three new monitoring reports to provide further insight into how a scheme's Journey Plan is developing.

1. An annual 'Financial Healthcheck' report (example executive summary page attached)
2. A re-vamped Integrated Risk Management (IRM)-focussed quarterly monitoring report
3. A dashboard-style IRM-focussed investment monitoring report.

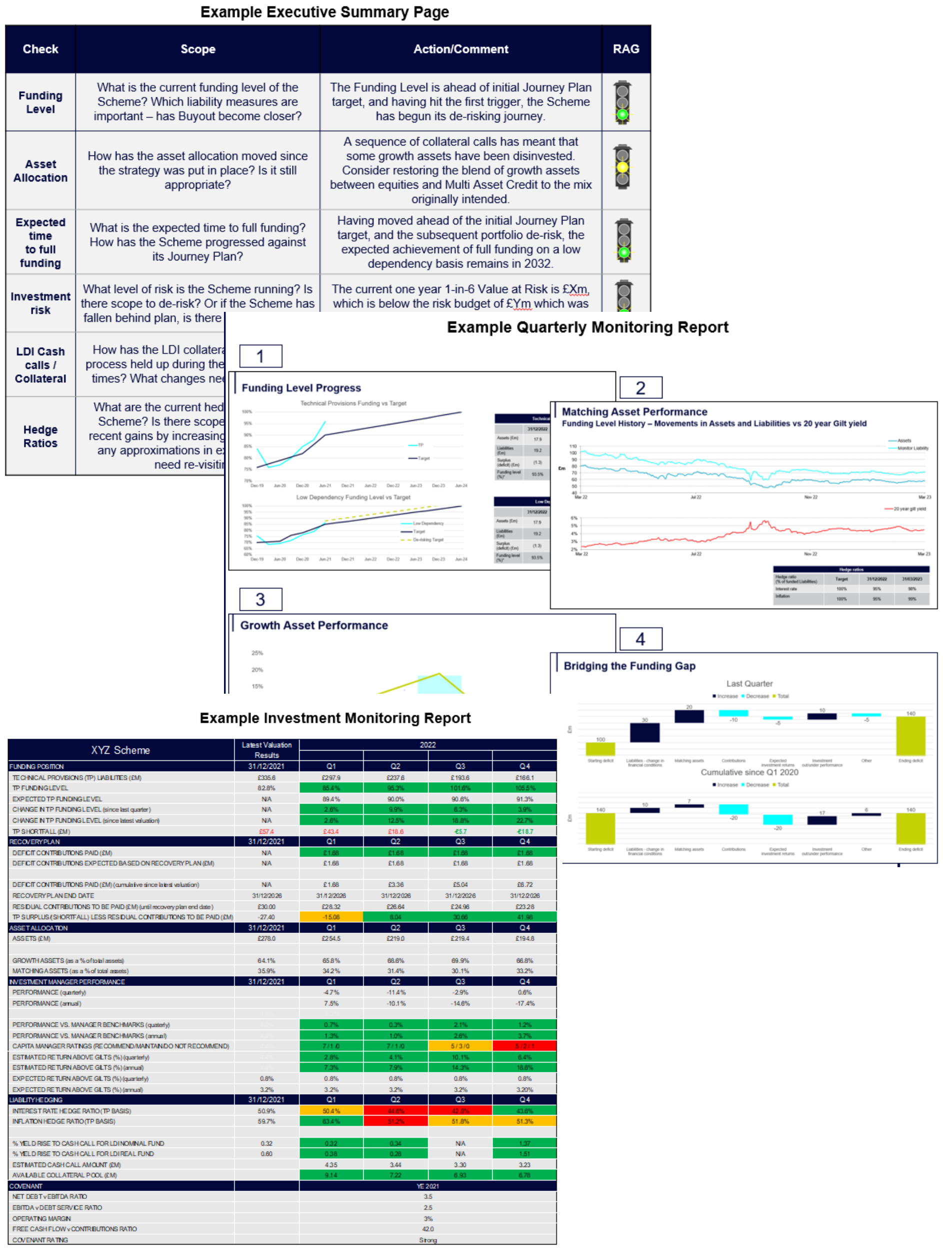
As per the Pensions Regulator's guidance:

<u>Trustee Responsibilities</u>

- *As a trustee, you're responsible for your scheme's investment governance arrangements, including determining its investment strategy.*

<u>Monitoring Investments</u>

- *Monitoring is an essential part of your investment governance. It should be prioritised, timely, and lead to actions.*
- *You should focus on, and monitor most frequently, those factors that will make the most difference to meeting the scheme's objectives. Typically, we would expect these to be the investment strategy and related market risk factors.*
- *You may find it helpful to put together an investment monitoring dashboard, i.e. a one or two page overview of key monitoring statistics. A well-designed dashboard should enable you to quickly understand the up-to-date financial position of your scheme and progression against objectives and should highlight key potential risks and developing issues. Furthermore, the dashboard should empower action by helping you make effective decisions in response to the information shown.*



Principle 4:
Collaboration to address risks

Example:
Sample advice on progressing DB liability discount rates to avoid over dependence on gilts

Key themes:

- *In its draft Code of Practice for DB Funding, TPR has said that the Low Dependency portfolio would mainly comprise of cash, government bonds and investment grade corporate bonds (i.e. liability-matching credit)*
- *Long-term Low Dependency liability targets are therefore, in theory, economically 25-50% linked to yields available on investment grade credit assets (and Buyout pricing is too).*
- *Scheme Actuaries often proxy the expected return on Low Dependency portfolios using a gilts+x% discount rate, where x% is an approximate prudent allowance for long term credit returns in excess of gilts. x% is often presented as a 'fixed' parameter for simplicity, but it is fundamentally linked to the yield available on investment grade credit assets in excess of gilt yields (the 'credit spread').*
- *For clients investing in Credit-Linked LDI, Gilts+ fixed margin Low Dependency discount rates would mean some volatility in the reported LD funding level as credit spreads contract/widen, and this would arguably be due to the effect of approximations in the liability calculations rather than 'actual' funding level volatility. Linking the 'x%' to credit spreads would arguably be a more accurate way to value the liabilities.*
- *This quandary is analogous to many years ago when actuaries commonly used single 'spot rate' discount rate assumptions as a proxy to full curves, resulting in reported funding level volatility for clients invested in LDI when curves changed shape, even though 'actual' funding level volatility had been removed. Actuaries are now generally using full curves for discount rate assumptions as standard for greater accuracy in liability valuations.*
- ***Trustees should take scheme-specific advice from their Scheme Actuary as to whether, and how, the Low Dependency discount rate structure should be revised to more clearly link it with credit spreads.***

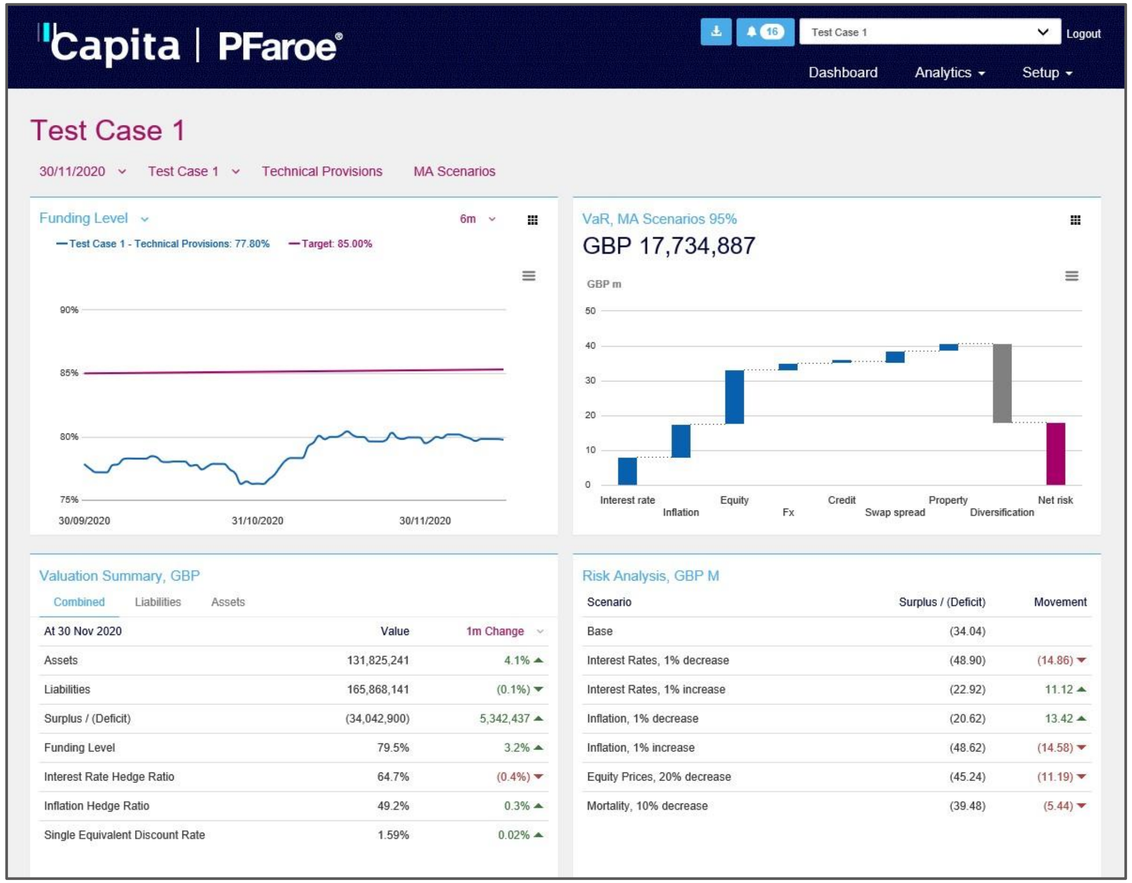
Collaboration between Capita's specialist groups is encouraged. We recognise that the different teams provide insight that can help the wider Capita team provide expert work and analysis to their clients. There are multiple pensions consulting training sessions throughout the week which cover, for example, tutorials for on-platform tools such as PFaroe and walk-throughs on any features that have become newly available. These sessions open up communications with the many different departments at Capita and allows employees to ask questions and learn which consequently helps the team discuss new ways to drive efficiency.

To illustrate an example of collaboration, **over the reporting year the Actuarial team and Investment team have merged into one team** as part of our drive to provide joined-up advice that allows for the client to meet their end goal.

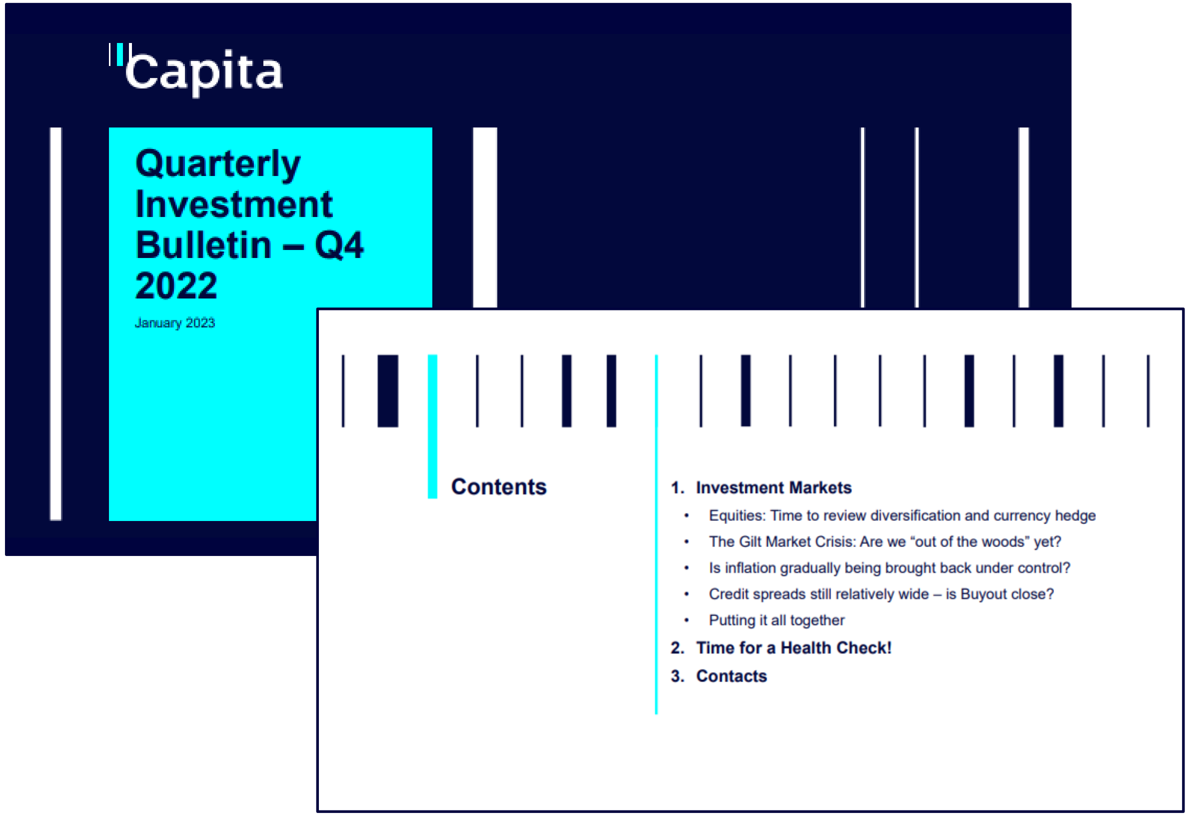
As a further example, the extract to the left shows how investment consultants consider wider issues and bring Scheme Actuaries into the conversation to deliver an integrated solution for DB clients. By doing this we are addressing systemic risks of DB schemes not investing approximately to meet their liabilities.

Principle 4:
Use of tools, systems and technologies

- We help clients to set a ‘Journey Plan’ to work out the clients’ end goals and their risk and return objectives. This increases the likelihood of achieving the client’s end-game objective within an appropriate timeframe.
- We assist clients to set a framework and associated governance around the Journey Plan to enable swift changes to be made when market conditions change materially.
- Capita use PFaroe, an asset and liability modelling tool licenced from Moody’s. It is used by Capita actuaries, investment consultants and analysts to perform Triennial Actuarial Valuations, Investment Strategy Reviews and a variety of other work. This helps us highlight a DB pension scheme’s main concerns, risk and time horizon. A screenshot is shown on the right.
- Due to the use of such advanced tools, Capita’s actuarial and investment consultants are able to provide consistent, high-level advice.
- PFaroe has helped us answer the following questions:
- Is the overall level of risk appropriate given the funding level, scheme maturity and covenant of the Sponsoring Employer?
- In what areas can we mitigate unwanted risk?
- Is there an appropriate balance of risks (i.e. no outsized risks)?
- The PFaroe system enables us to monitor a client’s funding level versus their agreed target Journey Plan with automatic alerts when significantly ahead or behind plan.
- Over the year, Capita have made increasing use of new PFaroe modules to help quantify risks to clients, particularly the ‘Risk’ and ‘Combined’ modules.



Principle 4:
Sharing our knowledge


Capita

Quarterly Investment Bulletin – Q4 2022

January 2023

Contents

1. Investment Markets
   - Equities: Time to review diversification and currency hedge
   - The Gilt Market Crisis: Are we “out of the woods” yet?
   - Is inflation gradually being brought back under control?
   - Credit spreads still relatively wide – is Buyout close?
   - Putting it all together
2. Time for a Health Check!
3. Contacts

Quarterly Investment Bulletin

We publish a Quarterly Investment Bulletin where macroeconomic and investment trends are identified and topical themes discussed.

This publication is provided free-of-charge.

It helps mitigate market-wide and systemic risks by educating stakeholders to help encourage effective decision-making.

We hope that such publications will lead to an appreciation of our knowledge and skill as subject matter experts so that prospective clients will choose Capita when deciding who they want to appoint to help them resolve the issues that they are facing.

Principle 4:
In-depth manager research

- Capita believes analysing managers holistically and advising our clients towards managers that align with our values and their requirements, contributes to the efficient allocation of capital in the markets. We cover all major asset classes, including but not limited to, Diversified Growth Funds, Liability Driven Investments, Equities, Multi Asset Credit and Absolute Return Bonds.
- We receive quarterly updates from our recommended investment managers and conduct annual "deep dive" reviews. We discuss these findings at regular Manager Research meetings and deliver reports to clients when requested or during selection processes. We also inform clients immediately when any of our recommendations change.
- We ensure that all of our recommended managers are considering ESG issues when taking investment decisions and we are working with clients to understand what their investment managers' ESG policies are and how these align with their own beliefs.
- Investment managers are asked to complete Due Diligence Questionnaires to help identify potential issues, including, but not limited to, operational issues. We also account for the specialist experience of our Asset Transfer team to identify operational issues (e.g. lack of Straight-Through-Processing and manual intervention at one investment manager).
- We have a well organised team where our experienced consultants lead a team of investment analysts to carry out quantitative research on the funds and their specific asset class universe. Each team manages meetings and collates fund information including an updated time series of events regarding specific funds.
- Our process in assessing investment managers against six key factors is presented on the right, along with example weightings for a particular asset class, to ascertain manager's ability to manage market and systemic risk.

- Manager research is a crucial part of the investment process. Risk is often looked at as a systematic issue, however it is important to not lose sight of the unsystematic risk or the "firm-specific" risk. Although returns are important when in the process of picking a manager, at Capita we look for a strong team behind a fund. We want to ensure that the funds have a team of investment professionals behind them so we can minimise any unwanted risk.
- We routinely receive updates from asset managers that includes information such as the change in the number of investment professionals and portfolio managers working behind the funds, and their tenures. This helps us to internally alleviate any concern that we have outside of market return.
- Reviewing fund performance with the backdrop of the wider business gives both the consultants and the client a greater ability and confidence to invest in a specific fund.

Category	Weighting	Attributes
Business	10%	• Stable and appropriate business structure • Clear business strategy with achievable goals given current and planned resources • Sufficient market liquidity given current and planned AUM • Minimal growth tensions
People	10%	• Strong vision and leadership and a sound business plan and culture • A business culture that encourages team-work, honesty and integrity • Culture of transparency and challenge, but minimal intra-company tensions • Fund incentives well aligned with the interest of the investors • Low "key man" risk and acceptable amount of personnel turnover
Philosophy and Process	30%	• A clear and strong competitive edge over other fund managers • Clear idea of how to take advantage of the perceived market opportunity • Firm-wide transparency and challenge of ideas • Idea generation process which fits with philosophy • Clear process for screening ideas and constructing portfolio • Appropriate use of valuation models • Suitable monitoring in place and defined exit strategy
Performance	20%	• Long term through the cycle performance record that strongly indicates superior ability • Strong performance persists after adjusting for risk • Performance reflects investment philosophy and process
Risk	20%	• Empowered and politically strong risk function • Risk monitoring is suitably comprehensive and enhances portfolio management
ESG	10%	• ESG exposures are considered within the investment process and are suitably monitored • Integrated ESG approach within the investment process
TOTAL	100%	

Principle 4: Climate change

- At Capita, we're working hard to differentiate and understand the difference between money that is invested responsibly and money that is not. As investment consultants, it is crucial that we are giving advice that is in line with global standards in responsible investment.
- At Capita, we work with asset managers to drive investments that limit the negative externalities to the rest of society. We want to reduce the negative externalities of investment.
- We ask our asset managers to fill out a table (right) which highlights important issues in the modern world such as:
  - Is the overall level of risk appropriate given the funding level, scheme maturity and covenant of the Sponsoring Employer?
  - Total greenhouse gas emissions
  - Carbon intensity
  - Carbon intensity of peer group
  - The percentage of the fund with a net zero carbon target
  - Percentage change in carbon intensity today against a year ago
- The bullet points hold asset managers accountable but also help both the asset managers and service providers see how far they have come versus where they were one year ago. As part of our manager assessment, we will assign a score for the manager's approach to ESG, and their ESG reporting capabilities.
- Capita have won a Thought Leadership award from Pensions Age magazine for our work in driving forward the ESG agenda for smaller pension schemes.

Fund name	Current allocation	Carbon intensity (tCO_2e/$m sales)*	% change in carbon intensity vs one year ago	Carbon intensity of peer group (tCO_2e/$m sales)*	Total greenhouse gas emissions (tCO_2e)	% of fund with net zero carbon target**	An explanation as to why you invest in assets that are not targeting net zero carbon.	Year by which managers are expecting a net zero target	Fund MSCI ESG score

Principle 5: Supporting Client’s Stewardship

Principle 5:
Client breakdown

Currently 100% of our Investment Consulting clients are UK based Institutional Pension Schemes.

All of our clients are Institutional clients – we do not advise retail clients.

Principle 5:
Our investment consulting approach

At Capita, after taking into account our clients' views, we strive to offer consulting which does not try to overcomplicate things. For example, we can set up a framework within which to operate, where certain re-balancing or de-risking trades are pre-agreed. This acts a bit like fiduciary management, but without the loss of control, and allows trustees to focus on the overall strategy (including ESG and stewardship). We achieve this with transparent upfront inclusive fixed fees that offer value for money, offering services and strategies designed for larger clients, but simplified and adapted to meet the needs of our client base.

A key part of this is interactive meetings with up-to-date reporting (including online access to integrated asset and liability information for clients that have chosen this option).

Collaboration to share the benefits

An investment strategy is not static so Capita's investment consultants have modelled a range of scenarios to fit in with any scheme's strategic goals. We have pre-designed portfolios for each scenario and have spent considerable time working out which asset classes are effective and good value. Focusing on long-term value means that ESG and investment beliefs can be fully integrated.

Senior Investment Committee


George Allen


Ben Kwai


Jason Becker


Israel Cohen

Our senior investment committee meet regularly to discuss and determine a number of topics including our house views and manager ratings. We generally seek to have a house view in all areas, in order to:

- achieve **consistency** across consultants, with all clients receiving the "best ideas" from across the team, and to **limit "key person risk"** to our clients (to avoid clients having a strategy which is linked to an individual consultant); and
- seek to ensure broad consistency across clients, in order to achieve **efficiencies and economies of scale** to control costs.

House views form a starting point for scheme-specific advice **but consultants have the flexibility** to appropriately tailor advice to suit individual clients' needs**.**

Consultants discuss any large deviation from house views with the senior investment committee, which ensures that we (i) always deliver **well-considered client specific advice**, and (ii) **dynamically evolve our house views over time** to reflect our clients' needs.

Listening to our clients and adapting our approach

We recognise client needs and have positioned ourselves in the market accordingly. We recognise that investments are part of a bigger picture involving our actuaries and pension consultants.

By not overcomplicating things, we are able to offer good value for money for all of our schemes (most of whom are sub £100m and so have limited budgets and governance time) without compromising on what matters. We have spent considerable time working out which asset classes are effective and good value to come up with pre-designed portfolios (made up of consistent building blocks) for each possible scenario, enabling us to adjust and apply to our clients' specific needs.

Upfront inclusive fixed fees that suit our clients needs with no hidden costs unless absolutely unavoidable (e.g. novel regulations) has been a well received approach amongst our clients and allows us to keep costs down whenever possible.

We know how important ESG in particular is to our clients (and the industry in general) as we continue to communicate with our clients about the legislation requiring governance, strategy, risk management, and accompanying metrics and targets for the assessment and management of climate risks in line with TCFD reporting. Our manager research teams have put emphasis on researching managers' ESG considerations when selecting their portfolios.

Over the reporting period we have also worked with fund managers to both:

- assess any ESG products/funds that they have launched to establish how they take account of ESG, and determine whether their approach is in line with our clients' policies.
- Provide us with more granular data on their funds e.g. Carbon Intensity, Carbon Footprint, ESG scores. Some managers have been unable to provide full data at this point, however we understand the importance of this matter, so are encouraging them to improve their reporting standards so that both Capita and the client can make responsible decisions.

In March 2023 Capita won the Pension Age: ‘Thought Leadership Award’ for 2022

for continued development of ESG investing and TCFD reporting requirements for smaller schemes.

Principle 5:
Current areas of focus

COLLATERAL MANAGEMENT

- Regulator guidance on LDI
- Setting, operating and maintaining collateral buffers
- Types of pre-agreed collateral sources
- LDI implementation governance
- Current hedge ratios of the Scheme
- Collateral cover

JOURNEY PLANNING

- Regular monitoring reports
- The current funding level of the Scheme and which liability measures are important e.g., has Buyout become closer? Is Buyout the right objective?
- Expected time to full funding
- Level of risk the Scheme is running vs support available
- Regulator Guidance on DB Funding

STEWARDSHIP

- Aim is for Sustainable companies
- Needs effective engagement between companies and investors
- ALL Pension schemes have an interest/fiduciary duty
- Practicalities for small schemes need to be overcome

Principle 5:
Recent work in these areas

Collateral Management

To ensure that cash calls are not missed (and hedging levels / investment return targets are maintained),we recommend that the collateral source should be stable, liquid and readily accessible and that the LDI platform provider automatically meets the calls.

Journey Planning

As per the Pensions Regulator’s guidance: a trustee is responsible for their scheme’s investment governance arrangements, including determining their investment strategy and monitoring investments. We have recently introduced a new style of Reporting, which is a one-page overview of key monitoring statistics. This enables the trustees to quickly understand the up -to -date financial position of their scheme and progression against objectives and highlights key potential risks and developing issues. We believe this is important for trustees as it enables them to make effective decisions in response to the information shown.

Stewardship

For pension schemes invested in pooled funds this is a continuing issue. We are working with the industry and regulators to ensure a practical solution is arrived at that enables our clients to be engaged owners. We are also educating clients on the model previously shown on the importance of engagement and the importance of all the players in the chain of control. We are convinced that a model will be workable as most clients should be able to agree policies on climate change and biodiversity that will be pointing in the same direction and working towards the UN Sustainable Development Goals.

Principle 5: Example – Collateral management

The Bank of England and The Pension Regulator issued guidance on LDI following the gilt crisis in September and October 2022. The guidance sets out specific issues to consider, including: resilience standards for LDI funds against adverse market conditions, operating and maintaining a collateral buffer, testing for resilience, making sure the trustees have the right governance in place and monitoring LDI.

Effective collateral management is vital

Example: LDI Fund Collateral Waterfall

1 **Tier 1**
Cash, cash equivalents, absolute return bonds

2 **Tier 2**
Diversified growth fund, equities

3 **Tier 3**
Multi-asset credit

The importance of collateral management and good governance

LDI strategies reduce volatility in a pension scheme's funding levels by investing in assets whose value moves similarly to the scheme's liabilities. Through the use of leverage, schemes can achieve capital-efficiency by freeing up capital to invest in higher return assets.

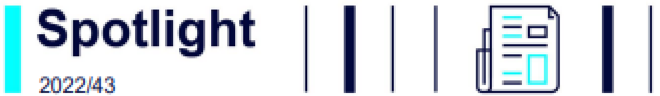
Movements in interest rates and/or inflation expectations may increase or decrease the level of leverage within the LDI funds. Schemes may be required to undergo re-capitalisation calls or distributions in order to keep the degree of leverage within a reasonable range. These are known as a leverage events.

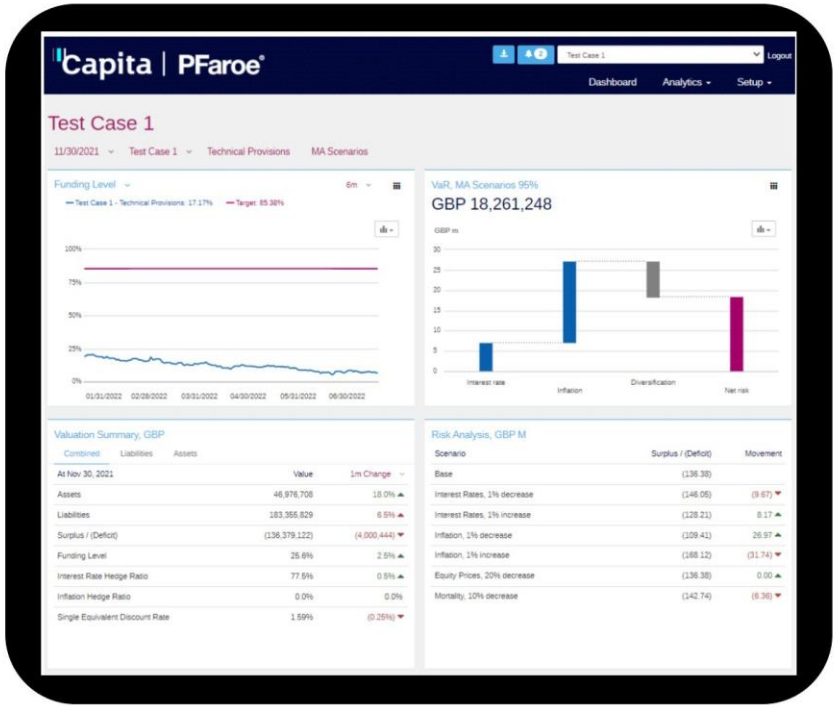
Following the rapid rise in gilt yields at the end of September 2022, pension schemes needed to act quickly to fund large margin calls. Without effective collateral management policies in place, schemes could have their liability hedging reduced by the LDI fund manager if they could not meet the collateral call within a very short timeframe.

We regularly spoke with the LDI managers to ensure we were aware when the level of leverage may be approaching the upper limit, resulting in a collateral call. Additionally, regular catch ups ensured we were up to date with the latest LDI news and involved in market wide conversations.

We effectively communicated with clients the proposed approach to meeting collateral calls that would maintain the same level of hedging. We recommended pension schemes an automated approach with a sufficiently deep pool of liquid collateral assets to enhance efficiency and minimise manual processes during cash calls.

Principle 5: Communication





Effective communication with our clients

We communicate with clients on a regular basis through a large variety of mediums. These typically include the traditional face-to-face/now virtual quarterly client meetings, regular email/telephone communication, our website and through our technical focused Spotlight papers.

In 2022 we continued to produce and distribute our Quarterly Investment Bulletins (QIB), which provide information and data across a variety of investment markets, helping to keep our clients informed in a very concise and user friendly format. Our bulletins also include a topical article written by a member of the Investment team which highlights key issues that many of our clients are facing. The QIBs covered a range of topics, including an introduction to DB Superfunds(Q1),an overview of the maturing effect(Q2), implications of rising gilt yields (Q3), and a financial health check for DB schemes given the rise in gilt yields(Q4).

We continue to host our series of webinars, which continue to generate interest through regular posting on social media outlets to cover any topics that are relevant to our clients and the industry.

Frequency of communication varies between clients but generally ranges from half-yearly/quarterly to daily in some cases, depending on our clients' needs as well as developments in the broader market.

For example, towards the end of 2022 we experienced rapid rise in gilt yields, we proactively communicated with clients to notify them of potential impacts on their schemes, we also released an investment bulletin in Q4 highlighting the need for clients to review the position of their scheme by getting a financial health check.

We think it is important to offer our clients a variety of these tools and sources of information, including tech-based solutions like Moody's PFaroe, coupled with our scheme-specific advice to allow our clients to make informed decisions that are appropriate for them and their needs.

Client feedback is also vital to the way we communicate with clients. In 2022 we continued to seek and utilise client feedback via our very extensive client survey, client feedback is very important to us and is instrumental in improving the quality of service we can offer. The results of the client survey are illustrated earlier in this presentation.

Principle 5:
Evaluating effectiveness of our client communication methods

Client Surveys

- 71% of our clients believe that the Investment Consultant provides clear and high-quality advice compared to 55% in the previous year. This is an indication of an improvement in our communication methods.
- Our surveys allow for clients to give feedback on any areas that are not already in one of the questions. We appreciate open and honest feedback that help us to grow as a business.

Feedback

- Investment Objectives are set by the Investment Consultant and reviewed by the Trustees. The objectives also the Trustees to evaluate how well the investment team are helping them to meet their objectives.
- Investment objectives are reviewed after an agreed period which allow Trustees to get the most out of their service.
- Clients are asked for feedback on the services provided and whether they think that they are good value for money. We are open to discussing the client's needs.

Client Engagement

- Clients are sent our Quarterly Investment Bulletin. This prompts discussion about current markets.
- Each client has a dedicated Client Relationship Manager (CRM) – there is a clear line of communication to Capita.
- Clients are often invited to Capita and industry wide events. Engaging directly with our clients fosters stronger relationships and deepens their industry knowledge. This direct interaction is valuable in assessing our efficacy of our client communication methods.

Principle 6: Review and Assurance

Principle 6:
Our ongoing review process

We continually review how we support clients' effective stewardship through a continuing cycle, which has the following stages:

1. Own research and attend industry events regarding topical themes: Our highly skilled consultants and their supports carry out this step to help understand the most pertinent Stewardship issues which our clients are facing.

2. Internal discussion/debate about key stewardship issues: Our Senior consultants discuss and debate the issues revealed from 1. above to agree a 'house view' on most issues.

3. Develop solutions: The solutions we develop cover issues ranging from strategic issues (such as what funding target to aim for), asset allocation decisions (which asset classes or fund managers to use), how best to carry out any client-specific analysis (e.g., how best to use Moody's PFaroe), how best to communicate with clients and how much to charge clients for our work.

4. Propose solutions to Clients, Professional Trustees and Investment Managers
Historically, many of the users of our advice were Lay Trustees but increasingly Professional Trustees are employed by the sponsoring Employers of the pension schemes which we advise on. We naturally interact with investment managers too as we need their money management expertise to execute the investment strategies which we propose.

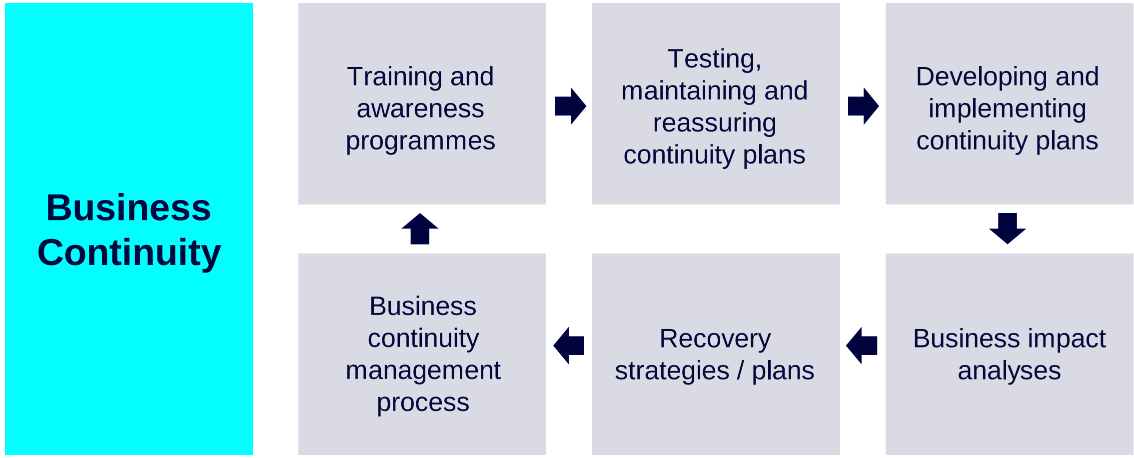
5. Ask for feedback
Lay Trustees, Professional Trustees and Investment Managers all have a unique and valuable perspective on the Stewardship issues that our clients are facing. Professional Trustees have experience working with a number of different service providers and are uniquely able to critically evaluate any solutions we put forward versus other ideas they are seeing in the market.

We use this feedback to inform our ongoing research and development of solutions.

Principle 6: Examples of other assurances

Business Continuity Procedures

We have formal and robust Business Continuity Plans (BCP) in place to mitigate the effects of a major disaster affecting any of our systems or delivery locations and the service to the Company. This is overseen by our Business Continuity Manager and aligned to ISO 22301.



Business Accreditation

Independent assurance of our overall commitment to work to the highest standards is evidenced by our list of accreditations as follows:

- ISO 9001 - Quality Management
- ISO 14001 Environmental Management
- ISO 20000 - IT Service Management
- ISO 27001 - Information Security Management
- ISO 22301 - Business Continuity Management
- ISO 44001 - Collaborative Business Relationship Management
- IiP - Investors in People
- Plain English - Platinum members of the Plain English Campaign

Our Disaster Recovery Plan

Alongside our Business Continuity Plan, we also have a formal Disaster Recovery Plan that is tested annually. The purpose of this policy is to ensure Capita's critical assets are ready "to support business operations in the event of emerging events and incidents and related disruptions that could affect the continuity of critical business functions" (ISO 27031)

Data capture, storage and backup: We maintain passive data storage protection, including file archiving. Capita IT Enterprise Services (ITES), our sister company within Capita, manages all aspects of the system backups and uses a virtual tape management system with no physical tapes. All databases and files are stored on the Shared Area Network (SAN). No data is stored on local server disks..

Loss of key personnel: Our BCP process has identified key processes and the core numbers of staff required to action these. If there is reduced staffing, then the core process will be addressed in the short term and, in the longer-term, assistance from other production sites can be provided to address general scheme activities.

Paper records recovery: As soon as paper records are scanned, the EDM ("Electronic Document Management") images are stored on the servers at the Capita data centre, and as stated above, recovery is provided by restoring from backup.

Telephony recovery: Advertised numbers can be re-directed to mobile phones. Most of our staff are working from home with soft telephone technology deployed.

Business continuity and disaster recovery exercises are scheduled to be carried out at least annually for all of our sites. As an example, a recent test demonstrated that in a disaster recovery situation, pensions administration processes would be available the next working day with full connectivity to Capita hosted applications and third-party systems and transfer of staff is achievable within 24 hours.

Recovery timescales

Business continuity and disaster recovery procedures are based on recovering critical services within 24 hours, minimising any potential disruption to our services.

Principle 6:
Examples of other assurances

Cyber security

Security and cyber security are essential to Capita, and especially our pensions service, to protect data and processes. Both static and dynamic security testing is embedded in our development processes, while our live services are monitored, and any issues are managed by our service teams. The continued live production service requires a continuous programme of refreshing, to ensure our infrastructure is maintained within service and in accordance with our patching and release policy.

Cyber security is inherent in our digital development and delivery, including automated security testing which identifies any vulnerabilities, and addresses them as a priority. Further testing in the production environment is conducted through penetration testing and any issues assessed and resolved in accordance to their risk profile. Penetration testing is undertaken by external CHECK/CREST qualified consultants. At present, this is conducted at least annually, and the results are reported to the information security team and relevant development teams.

Our digital strategy also includes the application of artificial intelligence to identify personal and sensitive personal data as well as tagging other key data in accordance with our data classification. Tagged data will be maintained according to the defined data policies, whilst the data lineage will also be retained. Access to data will be managed in accordance with the data policies to ensure only those users and systems with the appropriate access will be able to read or modify the data, and an audit trail of data and its access is also maintained.

Information Security Awareness

All analysts within Capita Pension Solutions attended an Information Security Awareness training session. This was delivered by an inhouse specialist who explained the STRIDE threat model, phishing scams as well as various other security techniques. All members of staff also complete the Cyber and Information Security Awareness computer-based training module. This must be completed each year.

LastPass

As part of our ongoing commitment to enhance our cyber security, we have launched a new Password Manager tool, which will select and securely store passwords for the systems and applications we use.

The new tool – LastPass Password Manager – provides complex passwords for each system we use which is essential for system and data security. The LastPass Password Manager tool will do the work of creating, remembering, and filling in passwords for you. It generates very secure random passwords; no two passwords will ever be the same.

Principle 6: Fair, Balanced and Understandable

01

Fair

We do not hide from any areas where we think we can improve on. We keep a fair and honest approach when disclosing information.

02

Balanced

We have our very own UK Stewardship Code working group from every level from graduate level analyst to Chief Investment Officer. This ensures we have a balanced approach to reporting.

03

Understandable

We write these UK Stewardship Code reports with our lay trustee clients in mind, so that we avoid using jargon to keep it understandable.

Our draft report is independently peer reviewed by another Capita senior leader who does not work in investment consulting, to further help make sure that it is fair, balanced and understandable.

Disclaimer

This report has been prepared by Capita Pensions Solutions Limited (“Capita”).

This report is not advice. It is intended by Capita to form a basis of any decision to do or omit to do anything.

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