Pillar 3 Disclosures

Buck Consultants (Administration & Investment) Limited

December 2020

Contents

1. Introduction

Under UK financial services regulation implementing the European Union's Capital Requirements Directive, Buck Consultants (Administration & Investment) Limited ("BCAI") is required to make publicly available certain information regarding risk management policies, capital resources and capital requirements. For this reason, we have provided you access to that information here:

BUCK CONSULTANTS (ADMINISTRATION & INVESTMENT) LIMITED: PILLAR 3 DISCLOSURE AND POLICY

2. Regulatory Context

This document serves to meet the Pillar 3 disclosures required by the Financial Conduct Authority (FCA) Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") specifically BIPRU 11.3.1R and BIPRU 11.3.3R. These rules implement in the United Kingdom the Capital Adequacy Directive ("CAD") and Capital Resources Regulation (“CRR”), which represents the European Union's application of the Basel Capital Accord.

The regulatory aim of the disclosures is to improve market discipline.

These requirements have three pillars:

1. Pillar 1 deals with minimum capital requirements that must be held;
2. Pillar 2 deals with the Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the firm in relation to the risks it faces, *and*;
3. Pillar 3 deals with public disclosure of risk management policies, capital resources and capital requirements.

3. Important Information about the Preparation of these Disclosures

This document has been prepared for the sole purpose of disclosing how Buck Consultants (Administration & Investment) Limited has documented compliance with certain capital requirements and managed risk and for no other purpose. It is based on the 31st December 2019 audited financial statements.

This document only concerns Buck Consultants (Administration & Investment) Limited ("the Firm") (“BCAI”).

The information contained herein has been subject to internal review by the Firm's Board of Directors, but has not been audited by the Firm's external auditors. It does not constitute any form of financial statement and must not be relied upon in making any judgment.

This disclosure will be updated annually after the audit of the year-end statutory accounts and financial statements, unless there is a material change to the business strategy or scale of operations.

This disclosure will be published on our website at www.buck.com and will be available from the registered office of BCAI: 20 Wood Street, London, EC2V 7AF.

4. Background to the Firm

BCAI is incorporated in the U.K. and is authorised and regulated by the Financial Conduct Authority ("FCA") as providing investment consulting, employee benefits consulting and employee benefits administration services within the UK, with permission from the FCA under a limited licence, which excludes holding client money.

The Firm is categorised under the U.K. prudential rules as a "BIPRU €50K" "limited licence" firm. The Firm is part of a group and is a wholly-owned subsidiary of Buck Consultants Limited (“BCL”).

BCAI is a 100% subsidiary of Buck Consultants Limited (BCL) which, up to 12th August 2018, was a wholly owned subsidiary of Conduent International BV in the Netherlands and the ultimate parent company was Conduent Incorporated in the United States.

As from 13th August 2018, the Directors consider H.I.G. GPII Inc. (incorporated in the United States) as being the Company's ultimate parent company. H.I.G is a global private equity investment firm and acquired Conduent Inc's wider human resource consulting and outsourcing business located in Canada and U.K as well as its U.S based human resource consulting and actuarial business.

Up to 12th August 2018, Liquidity Risk was managed by the Conduent Corporate Treasury department which ensured that the Company and its subsidiaries had the appropriate funding structure and access to funds such that they can meet their operating cash requirements and obligations as they fall due.

Subsequent to 12th August 2018, Liquidity Risk is being managed the Company's Finance Team. The ultimate parent, H.I.G. GPII Inc. (“H.I.G.”), will ensure that there is access to sufficient funding for the Company to meet its obligations as they fall due.

5. Summary of Main Risks

The Firm's principal lines of business are:

- Advice to corporates on the establishment of group personal pension and group Stakeholder arrangements;
- Investment Consulting for Trustees of Occupational Pension Schemes;
- Third party pension administration services for Occupational Pension Schemes;
- Administration services for employee share plans; and
- Administration services for employee flexible benefit arrangements.

The main risks facing the business are:

- **Credit Risk**: the risk of loss caused by the failure of a client, bank or counterparty to perform its contractual obligations.
- **Operational Risk**: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk may arise from processing errors, fraud, system failures or other events.
- **Insurance Risk**: (subset of Operational Risk): the risk of a firm having gaps in its insurance arrangements resulting in valid claims against the firm not being covered by insurance with the consequent costs being borne by the firm.
- **Liquidity Risk**: the risk that the business, although solvent, does not have sufficient available resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

Credit Risk

The Firm's business model means that its sources of credit risk are:

- Banks holding its cash accounts
- Non-payment of invoices by clients
- Fees receivable
- Intercompany receivables due from BCL
- Counterparty credit risk

The main sources of risk BCAI is exposed to are cash held in bank accounts and to external debtors (consisting of trade debtors and intercompany debtors).

BCAI mitigates its credit risk through its business model which is highly diversified by industry and type, and through the credit worthiness of the client portfolio. The good payment history of existing clients further mitigates the credit risk exposure.

Operational Risk

Operational risk is managed through a detailed and comprehensive suite of Corporate Policies & Procedures which are binding on all employees and monitored via a Risk Register. Compliance

with the Corporate Policies & Procedures is monitored by the Compliance, Finance and HR departments with breaches being appropriately escalated. Detailed reports of the perceived major risks areas are presented for review and discussion at the UK Board Meetings. Separate and independent reports are also submitted to US counter-parts in Legal/Compliance and Finance.

The Board's appetite for operational risk is low. Updates to the systems and controls to monitor those risks on a regular basis are being introduced.

Insurance Risk

BCAI is required to hold additional capital for the purpose of an increased professional indemnity excess.

There are two professional indemnity insurance policies. One is a global policy and the other is brokered locally. All other insurances are dealt with on a group basis, brokered globally.

The local indemnity insurance is held in accordance with FCA requirements including in relation to excess levels.

Liquidity Risk

BCAI holds sufficient cash (£106k at 31st December 2020; £306k at 31st December 2019; £1,587k as at 31 December 2018) and relies on BCL to provide funding. Cash received through BCL is managed by the finance team responsible for both companies. In addition, the directors are common to both companies giving assurance that no detrimental steps would be taken towards BCAI.

H.I.G. has put appropriate credit funding facilities in place to ensure that the Firm can meet its obligations as they fall due.

Cash within the group is monitored on a daily and weekly basis. The Finance Team have developed a cash flow model that allows forward looking review of liquidity availability, to highlight any potential risks for escalation to the BCAI Board of Directors.

BCAI does not hold other forms of liquid assets and does not hold client monies. Consideration has been given to an appropriate liquidity risk management framework incorporating processes, strategies and systems for risk assessment and liquidity stress testing scenarios.

The nature of its operations is such that BCAI's exposure to liquidity risk is considered low.

6. Specific Required Disclosures

BIPRU 11.5.1 R - DISCLOSURE ON RISK MANAGEMENT OBJECTIVES AND POLICIES

Our general risk management objective is to create and use adequate systems and controls to mitigate risk and monitor the operation of the business and its environment to ensure that sufficient capital to cover all relevant risk is held at all times.

The Board of Directors is the Governing Body of the Firm and has management and oversight responsibility. It meets as required and is composed of:

- David Piltz, UK Managing Director
- Michael Young, Head of Compliance
- Gill Rice, Head of IT
- Antony Green, Head of Finance

The Board decides the Firm's risk appetite and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure potential impact and to ensure that those risks are actively managed.

The Firm has a conservative attitude to risk and accepts certain risks inherent to the business model.

These risks are mitigated and managed through tried and tested systems and controls.
The Firm has identified material risks and has undertaken scenario analysis and stress tests on these risks as detailed in the Internal Capital Adequacy Assessment Process ("ICAAP").

Overall, there is a low level of risk and therefore the Board has set an annual frequency for review of the ICAAP.

BIPRU 11.5.2 R - DISCLOSURE ON THE SCOPE OF THE APPLICATION OF DIRECTIVE REQUIREMENTS

BCAI submits reports for accounting and prudential purposes to the FCA on an unconsolidated basis.

BIPRU 11.5.3 R - DISCLOSURE ON CAPITAL RESOURCES

Pillar 1

Pillar 1 risks are the risks against which a firm holds capital based on the requirements of BIPRU. The capital requirement for BCAI as a €50k BIPRU firm is calculated as the higher of:

- Minimum capital requirement (€50K);
- The sum of Credit and Market Risk capital requirements; and
- The Fixed Overhead Requirement.

Credit risk under Pillar 1

BCAI's business model means that its sources of credit risk are:

- Cash in the Bank (20% Risk Weighting)
- Fees receivable (100% Risk Weighting)
- Inter-company debtors (100% Risk Weighting)
- Prepayments (100% Risk Weighting)

The Firm's Pillar 1 capital requirement is outlined in the table below:

	FY2019 £'000
FCA Capital Requirement:	
1. Minimum Capital Requirement (€50k LLIF)	50
Credit Risk	997
Market Risk	-
2. Sum of Credit and Market Risks	997
3. Fixed Overhead Requirement (FOR)	6,298
Capital Requirement*	**6,298**

The Firm's surplus / excess over the capital requirement is in the table below:

	FY 2019 £'000
Higher of FCA Capital Requirement and Internal Capital Requirements made up of:	
FCA Capital Requirement (Pillar 1)	6,298
Add on required to match Internal Capital Requirement ('Pillar 2 add-on')	-
Total FCA Capital Requirement (Pillar 1 and Pillar 2(a)	**6,298**
Capital Resources (Tier 1 Capital)	12,107
Surplus	**5,809**
Total Capital Ratio %	192%
Capital resources as a % of the Internal Capital Resource (Pillar 2) requirement	338%
Capital resources as a % of the FCA minimum capital resources requirement	11619%
Number of Times Capital Requirement Covered	1.92

BIPRU 11.5.4 R – DISCLOSURE ON COMPLIANCE WITH BIPRU 3, BIPRU 4, BIPRU 7 AND THE OVERALL PILLAR 2 RULE

BIPRU 3 - DISCLOSURE ON STANDARDISED CREDIT RISK

The Firm has adopted the standardised approach and the simplified method of calculating risk weights.

DISCLOSURE ON OVERALL PILLAR 2 RULE

The Firm has adopted the "Pillar 1 Plus" method of calculating its ICAAP Capital Resources Requirement. The Board reviews, amends and approves the ICAAP on an annual basis or whenever a material change to the business arises.

BIPRU 11.5.8 R - DISCLOSURE ON CREDIT RISK

Credit risk is the risk of loss caused by the failure of a client, bank or counterparty to perform its contractual obligations.

The main sources of risk BCAI is exposed to are cash held in bank accounts and to external debtors (consisting of trade debtors and intercompany debtors).

BCAI considers that no additional credit risk exposure is required for Pillar 2 as the Pillar 1 credit risk capital calculation in the current Pillar 1 standardised credit risk assessment (per BIPRU 3) is deemed sufficient given the conservatism built in to the standardised model and Fixed Overhead Requirement.

BIPRU 11.5.14 R - DISCLOSURE ON OPERATIONAL RISK

In line with the requirements for our prudential category, our Pillar 1 Capital Resources Requirement is equal to the higher of: €50,000; *or* Credit Risk Capital plus Market Risk Capital; *or* Fixed Overhead Requirement. Our Fixed Overhead Requirement is disclosed as a proxy for the Pillar 1 Operational Risk Capital calculation.

Under Pillar 2, the operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk may arise from processing errors, fraud, system failures or other events.

Operational Risk is managed through a detailed and comprehensive suite of Corporate Policies & Procedures which are binding on all employees and monitored via a Risk Register. Compliance with the Corporate Policies & Procedures is monitored by the Compliance, Finance and HR departments with breaches being appropriately escalated. Detailed reports of the perceived major risks areas are presented for review and discussion at the UK Board Meetings. Separate and independent reports are also submitted to US counter-parts in Legal/Compliance and Finance.

The additional capital resource that is required for Operational Risk for the purposes of the Pillar 2 assessment is £3.2m.

BIPRU 11.5.16R - DISCLOSURE ON EXPOSURES TO INTEREST RATE RISK IN THE NON-TRADING BOOK

Although the Firm holds substantial cash balances on its balance sheet, there is no significant exposure to interest rate fluctuations.

BIPRU 11.5.18 R - DISCLOSURE ON REMUNERATION

Decisions made regarding remuneration are made by the Board of Directors and the line managers of staff respectively and are ultimately approved by the Buck Global management team. Base pay is set by level of experience, performance payments are discretionary and based on the performance of the company and its UK and US parents. Staff performance is assessed annually by line managers.