



**Challenger Management Services (UK) Limited
(‘Challenger UK’)**

Pillar 3 Disclosure

30 June 2020

Pillar 3 Disclosure – Challenger Management Services (UK) Limited ('The Firm')

1. Introduction and background

The Capital Requirements Directive ('the Directive') of the European Union establishes the regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment Firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). The FCA framework consists of three Pillars:

- 1.1. Pillar 1 sets out the minimum capital amount that meets the Firm's credit, market and operational risk;
- 1.2. Pillar 2 requires the Firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review; and
- 1.3. Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet the Firm's Pillar 3 obligations.

The Firm is permitted to omit required disclosures where it believes that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information. In addition, the Firm may omit required disclosures where it believes that the information is regarded as proprietary or confidential. In the Firm's view, proprietary information is that which, if it were shared, would undermine its competitive position. Information is considered to be confidential where there are obligations binding the Firm to confidentiality with its customers, suppliers and counterparties. The Firm has made no omissions on the grounds that it is immaterial, proprietary or confidential.

Challenger Management Services (UK) Limited makes Pillar 3 disclosures at least annually. The disclosures are published on the Firm's website in accordance with FCA rules on Pillar 3 disclosure.

2. Scope and application of the requirements

Challenger UK is authorised and regulated by the Financial Conduct Authority and as such is subject to minimum regulatory capital requirements. The Firm is categorised as a BIPRU Firm by the FCA for capital purposes and as such has no trading book exposure. The Firm is also a Collective Portfolio Management Investment Firm ('CPMI').

Challenger UK provides investment management and advisory services to closed-ended wholesale funds and is limited to providing services to Professional and Eligible Counterparty clients.

The ultimate parent company of Challenger UK is Challenger Limited, a company incorporated in Australia. The financial statements of Challenger Limited are publicly available from Challenger Limited, Level 2, 5 Martin Place, Sydney, NSW, Australia.

Challenger UK is not part of a consolidation group for prudential purposes.

3. Risk Management

Challenger UK is governed by its directors ('the Directors') who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the Firm's governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces.

The Directors also determine how the risk Challenger UK faces may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Directors meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management and business planning and risk management. The Directors manage Challenger UK's risks business through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Directors have identified that business, operational, market and credit risks are the main areas of risk to which Challenger UK is exposed. Annually the Directors formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Directors identify material risks they consider the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate.

In accordance with Pillar 1 and Pillar 2 of the Directive, Challenger UK endorses an Internal Capital Adequacy Assessment Process (ICAAP). The Firm's ICAAP is reviewed annually and formally ratified by the Directors in order to detect and aim to mitigate the identified risks mentioned above.

Challenger UK does not have any retail or equity exposure. Challenger UK has no non-trading book exposures in equities. Challenger UK is not materially affected by interest rate fluctuations as it has no borrowings. No value adjustments or provisions were required by Challenger UK.

4. Regulatory Capital

Challenger UK is a Limited Company and its capital arrangements are established in its Articles of Association.

The main features of the Firm's capital resources for regulatory purposes as at the financial year end on 30th June 2020 are summarised as follows:

Capital item	£
Tier 1 Capital less innovative tier 1 capital	255,961
Total tier 2, innovative tier 1 and tier 3 capital	0
Deductions from tier 1 and tier 2 capital	0
Total capital resources, net of deductions	255,961

Challenger UK is small business with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from fees receivable and balances held at UK banks. Challenger UK follows the standardised approach to market risk and the simplified standard approach to credit risk. Challenger UK is subject to Fixed Overhead Requirement ('FOR') and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

As discussed above the Firm is a BIPRU and a CPMI Firm and its capital requirements are the greater of:

- Its base capital requirement of €125,000; or
- The sum of its market and credit risk requirements; and
- Its FOR

The Firm has identified limited credit risk and market risk exposures that are less than the base capital requirement. Based on 2020 audited accounts, the FOR is greater than the base capital requirement, at £135,664. The Firm therefore maintains a minimum capital amount of £135,664.

5. Remuneration code disclosure

5.1. Remuneration Policy

As Challenger UK is authorised and regulated by the FCA as a BIPRU Firm, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code ("the RemCode") covers an individual's total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

Challenger UK seconded staff from its affiliate, Fidante Partners Europe Limited, during the period. All quantitative information provided is in respect of seconded employees and directors who are deemed to be Code staff.

Challenger UK's Remuneration policy is designed to ensure that we comply with the RemCode and our compensation arrangements:

- are consistent with and promotes sound and effective risk management;
- do not encourage excessive risk taking;
- include measures to avoid conflicts of interest; and
- are in line with the Firm's business strategy, objectives, values and long-term interests.

5.2 Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA have sought to apply proportionality in the first instance by categorising Firms into 3 tiers. The Firm falls within the FCA's third proportionality tier and as such this disclosure is made in line with the requirements for a Tier 3 Firm.

5.3 Application of the requirements

The Firm is required to disclose certain information on at least an annual basis regarding its remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the Firm. Disclosure is made in accordance with the Firm's size, internal organisation and the nature, scope and complexity of its activities.

5.4 Summary of information on the decision-making process used for determining the Firm's remuneration policy including use of external benchmarking consultants where relevant.

- The Firm's policy has been agreed by the Senior Management in line with the RemCode principles laid down by the FCA.
- Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee.
- The Firm's policy will be reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.

5.5 Summary of how the Firm links between pay and performance

The total amount of remuneration will always be based on a combination of the assessment of the performance of:

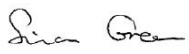
- the individual;
- the business unit concerned; and
- the overall results of the Firm; and
- when assessing individual performance, financial as well as non-financial criteria are taken into account.

5.6 Aggregate quantitative remuneration information for Code staff as at 30 June 2020.

	Total
Number of Code staff	6
Fixed remuneration (£m) ¹	0.62
Variable remuneration (£m) ²	0.24
Distribution based on share rights held at 30 June 2020 (£m)	0.00
Total Remuneration (£m)	0.86

The Firm may omit required disclosures where it believes that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data. No omissions on the grounds of data protection have been made.

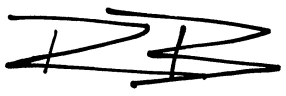
Signed as a true and correct record.


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Simon Green

22 December 2020
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Date


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Richard Bahn

22 December 2020
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Date

¹ Base Salary only

² Includes a discretionary cash bonus and performance share rights