Challenger Management Services (UK) Limited

Pillar 3 Disclosure

30 June 2018

Pillar 3 Disclosure – Challenger Management Services (UK) Limited (‘CMS UK’ or the ‘Firm’)

1. Introduction and background

The Capital Requirements Directive (the ‘Directive') of the European Union establishes a revised 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 firms are required to meet;
1.2. Pillar 2 requires the firm to assess whether additional capital should be held against risks not covered by its Pillar 1 capital; and
1.3. Pillar 3 requires disclosure of specified information about the underlying capital and risk management process.

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 the Firm’s directors (the ‘Directors’) believe 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 the Directors believe 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 the Firm’s 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 information is immaterial, proprietary or confidential.

CMS UK makes Pillar 3 disclosures at least annually. The disclosures are be published on the www.pillar3.eu website in accordance with FCA rules on Pillar 3 disclosure

2. Scope and application of the requirements

CMS 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 Euro 125K limited licence firm by the FCA for capital purposes and as such has no trading book exposure.

CMS 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 CMS 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.

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

3. Risk Management

CMS UK is governed by its 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 risks CMS 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 CMS UK's risks through a framework of policy and procedures having regard for 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 CMS 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 the Firm's 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, CMS 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 risks identified above.

CMS UK does not have any retail or equity exposure. CMS UK has no non-trading book exposures in equities. CMS UK is not materially affected by interest rate fluctuations as it has no borrowings. No value adjustments or provisions were required by CMS UK in the year ending 30 June 2018.

4. Regulatory Capital

CMS 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 at the financial year end on 30 June 2018 are summarised as follows:

Capital item	£
Tier 1 Capital less innovative tier 1 capital	159,001
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	159,001

CMS UK is small 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. CMS UK follows the standardised approach to market risk and the simplified standard approach to credit risk. CMS UK is subject to the 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 noted, the firm is a limited licence firm and as such its capital requirements are the greater of:

4.1. its base capital requirement of €125,000; or

4.2. the sum of its market and credit risk requirements; or

4.3. its FOR.

Limited credit risk and market risk exposures have been identified that are less than the base capital requirement. The Firm's FOR is also less than its base capital requirement. The Firm therefore maintains a minimum capital amount of €125,000.

5. Remuneration code disclosure

- Remuneration Policy

As CMS UK is authorised and regulated by the FCA as a limited license firm, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code found 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's policy is to incentivise staff through a combination of the two.

CMS UK had no employees during the period, thus no remuneration payments were made to staff.

CMS UK's remuneration policy is designed to ensure that the Firm complies with the RemCode and its compensation arrangements:

- are consistent with and promote 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.

- 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.

- 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 size, internal organisation and the nature, scope and complexity of the Firm's activities.

- 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, the Directors are not required to appoint an independent remuneration committee.

  - The Firm's policy will be reviewed as part of its annual processes and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.

- Summary of how the Firm links 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.

- The Firm may omit required disclosures where the Directors believe 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. The Firm has made no omissions on the grounds of data protection.