FIDANTE PARTNERS EUROPE LIMITED

Pillar III Disclosure

30 June 2017

Fidante Partners Europe Limited ("Fidante Partners Europe" or the "Firm")

A s at 30 June 2017

This is the Pillar III disclosure made in accordance with the UK Financial Conduct Authority ("FCA") Prudential Sourcebook for Investment Firms ("IFPRU") which is required to be made on an annual basis. The disclosures are subject to external verification only to the extent that they have been made in Fidante Partners Europe's Financial Statements for the period ended 30 June 2017.

Additional information on Fidante Partners Europe's Risk Management not required under Pillar III can be found in the Fidante Partners Europe financial statements.

Background

The regulatory framework for capital adequacy and financial resources in the UK consists of three 'pillars' – namely:

- Pillar I – which sets out the minimum capital requirements that firms are required to meet
- Pillar II – which requires firms to take a view on whether additional capital should be held against any risks not covered by Pillar 1; and
- Pillar III – which requires firms to publish certain details of its capital and risk management process.

This document contains the Pillar III disclosure for Fidante Partners Europe.

Basis of preparation

Definitions of assets and capital differ between the regulated capital adequacy rules of the FCA and the statutory accounting balance sheet standards. In these Pillar III Disclosures we use the definitions set out in the FCA rules.

Capital Resources – Common Reporting format

Tier 1 Capital

All of Fidante Partners Europe's capital is Tier 1 capital, comprising ordinary shares, which may have been issued at a premium, retained earnings, and an adjustment for any deductible deferred tax assets.

	£000
Paid up capital instruments	7,175
Retained earnings	961
(-) Deductible deferred tax assets	(2,761)
Common Equity Tier 1 Capital	**5,375**

Additional Tier 1 Capital

Fidante Partners Europe has no Additional Tier 1 capital.

Tier 2 Capital

Fidante Partners Europe has no Tier 2 capital.

Own Funds

	£000
Own Funds	**5,375**

Risk Management Objectives and Policies

As a firm authorised by the FCA to conduct investment business, Fidante Partners Europe is required by the EU Capital Requirements Directive to make public disclosure of its risk management objectives and policies in accordance with the requirements of Pillar III of the Directive and the internal capital adequacy assessment process ("ICAAP") prescribed by the FCA.

Fidante Partners Europe has a clearly defined operational strategy, which is

- To maintain a highly trained workforce which is flexible in operational terms to deal with varying levels of income; and
- Recognising also the necessity to retain strong cash reserves to tide the company over any downturns.

Fidante Partners Europe is operated managerially through the medium of a number of committees, including quarterly board meetings and ad hoc meetings called as necessary. As at 30 June 2017, the Board comprised of three executive directors.

The Board has overall responsibility for Fidante Partners Europe's system of internal controls, the objectives of which are the safeguarding of Fidante Partners Europe's assets, the maintenance of proper accounting records and the availability of reliable financial information for use within the business and for publication. This system of internal controls is also designed to provide reasonable, albeit not absolute, assurance against material misstatement and to prevent and detect fraud and other irregularities.

The Board regularly reviews the effectiveness of the Firm's internal control system. There is an ongoing process for identifying, evaluating and managing significant risks which was in place throughout the period.

Fidante Partners Europe's system of internal controls includes appropriate levels of authorisation and segregation of duties. Financial reports are presented to the Board monthly detailing the results, variances against forecast and other performance data.

Risk categories and definitions

Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Fidante Partners Europe is aware that operational risk can never be eliminated, but seeks to minimise the probability and impact of operational events.

Fidante Partners Europe's business areas manage this risk through applicable controls and loss mitigation techniques, including use of insurance. These activities include a balance of policies, procedures and internal controls to ensure compliance with laws and regulations. Further assurance is provided by Fidante Partners Europe's compliance department.

Fidante Partners Europe is subject to the Operational Risk Capital Component for calculation of its Pillar I Capital Resource Requirements. As at 30 June 2017 the amount required to be held by Fidante Partners Europe to meet the Operational Risk Capital Component was £1,099,306. Fidante Partners Europe considers this to be an acceptable alternative calculation for operational risk.

Credit risk

This represents the risk of loss through default by a counterparty. The most significant risk to Fidante Partners Europe is that a client or market counterparty will fail to settle a trade. Wholesale and institutional trades are conducted on the basis of "delivery versus payment", which minimises the risk of exposure to more substantial trading positions. This does not however eliminate risk entirely in the combination of circumstances in which the counterparty fails and the value of stock awaiting settlement against payment has changed adversely. To guard against this, Fidante Partners Europe sets exposure levels for individual stocks (and consequently to various counterparties) and monitors these. A residual maturity analysis of "delivery versus payment" transactions would not be meaningful and is therefore not deemed appropriate for Fidante Partners Europe's activities.

Exposure values are determined using mark to market methods.

Fidante Partners Europe has to hold funds to protect itself against credit risk, and this has been assessed based on the Pillar I requirements of the EU Directive (calculated using the simplified approach). Fidante Partners Europe credit risk weighted exposure amount was £150,080 at 30 June 2017.

Market risk

This is the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates. Whilst the Firm engages in some principal dealing, this is subject to strict controls and book and stock limits.

Fidante Partners Europe has small currency exposures, by taking positions in USD and EUR stocks. Policy requires any significant net exposures to be hedged. While changes in interest rates will affect income, they should not pose a significant risk to Fidante Partners Europe. Fidante Partners Europe foreign exchange risk capital requirement was £9,280 at 30 June 2017.

Market risk is assessed primarily within Pillar I, using the "Basic Method", as prescribed. Any further capital allocations are decided by the risk and regulatory review group within the framework of the Risk Matrix. Fidante Partners Europe monitors its exposure to Pillar I Market Risk on a daily basis as required under FCA regulations. Fidante Partners Europe market risk capital requirement was £293,440 at 30 June 2017.

Capital adequacy

The Firm assesses its capital adequacy to support current and future activities in a number of ways. Pillar I capital adequacy is monitored daily for compliance with capital requirements, and is reviewed formally by the Board on a quarterly basis. The Board will consider the need to change capital forecasts and capital plans based on such reviews.

Fidante Partners Europe assesses internal capital adequacy, as required by Pillar II, on an annual basis or sooner in the event of material changes to the firm. Pillar II capital adequacy assessments involve:

- a consideration of Fidante Partners Europe's current and planned activities in the economic and regulatory framework;
- stress and scenario testing as considered appropriate to the nature of the Firm's activities;
- other risks as required by Pillar II and as determined by the Board.

Forecast capital requirements in conjunction with actual levels are considered quarterly by the Board.

Remuneration Disclosures

as at 30 June 2017

The FCA's Remuneration Code (SYSC 19A of the FCA Handbook) (the "Code") requires all firms within the scope of the Code to ensure that their remuneration policies, practices, and procedures are clear and documented, and complete a Remuneration Policy Statement. Specifically, it is a requirement for disclosure of Fidante Partners Europe's approach to linking remuneration to risk.

Under the Code, the firm is classified as a Tier 3 firm, which allows it to dis-apply many of the technical requirements of the Code and proportionately apply the Code's rules and principles in establishing Fidante Partners Europe's policy.

Fidante Partners Europe is satisfied that the policies in place are appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities.

Code staff criteria

The Code requires Fidante Partners Europe to consider its processes and procedures for those senior staff that operate within Companies who are covered by the Code and whose professional activities have a material impact on the Firm's risk profile ("Code staff").

Fidante Partners Europe have considered this is in accordance with the FCA general guidance in defining Remuneration Code staff. The Code staff includes senior management, staff engaged in specific control functions and risk takers whose professional activities have a material impact on the firm's risk profile.

Fidante Partners Europe operates a total remuneration structure for all employees. The broad principle for the structure is to encourage individuals to contribute to the growth of the UK and European business profits, reward individual performance against specific measures and to attract and retain key employees by offering a fair, competitive total package.

The remuneration structure of the scheme's awards for the period to 30 June 2017 includes a fixed salary element, a trust distribution to employees holding share rights and a discretionary variable award, including a cash bonus and performance share rights. For the performance period to 30 June 2017, all individual bonuses were assessed diligently against agreed performance objectives at the team and individual level.

While Fidante Partners Europe does not have a Remuneration Committee (as per the Combined Code) the remuneration of staff is considered by the Group Remuneration Committee of Challenger Limited, the Firm's ultimate parent (along with its subsidiaries, the "Group"). Awards are subject to a defined review and sign-off process.

Fidante Partners Europe does not retain external consultants although external consultants are used from time to time for advice on specific issues. The Board does also seek advice from the Head of Human Resources, who provides relevant information and advice. The Group Remuneration Committee uses KPMG for advice on an ongoing basis.

Fidante Partners Europe (a wholly owned subsidiary of Challenger Limited) has stated that its objective is to build the business over the longer term and thereby maximise the return to the shareholders of Challenger Limited, while paying proper regard to the interests of all our stakeholders (including employees, clients, shareholders) and to the surrounding communities in which it operates.

It is acknowledged that the reputation and success of the firm is due to the service provided to investors and clients by highly qualified and committed staff. Staff are therefore one of the key assets of the organisation and it is its policy to attract and retain the best people.

In light of the above, when fixing the remuneration policies and packages for current and future periods Fidante Partners Europe will have the following in mind:

- the need to attract, retain and motivate staff of the quality required;
- what comparable companies are doing, taking into account relative performance; and
- pay and employment conditions elsewhere within the Group.

By paying due regard to the three above mentioned factors, the firm believes it can attract and retain the best quality staff, thereby ensuring that its long term interests are looked after.

Information on the link between pay and performance

Fidante Partners Europe set annual budgets and strict trading controls. Capital raising exercises are worked on by the whole team, rather than by individual focus.

Employees are not remunerated solely based on individual performance as there is greater focus on the long-term success of the European operations, and that success includes driving value over time, some of which comes from a firm with a strong compliance culture.

All bonuses are discretionary and not formulaic. Both current and potential future risks are specifically considered when determining bonuses. Employees have no contractual right to receive a bonus award and the Group Board has discretion to amend or withdraw the bonus scheme at any point.

Fidante Partners Europe set annual objectives for staff in line with business strategy and budgets. Staff are appraised and performance assessed against the achievement of these objectives, which include both quantitative and qualitative measures. The appraisal process is used to ensure the appropriate behaviour. Assessment against the 'Compliance' and 'Integrity' principles are treated as gate- openers for individual participation in the bonus scheme.

All Remuneration Code staff are considered for eligibility to participate in the Group long-term incentive plan, which is to ensure alignment of interests and encourage a long term approach.

Aggregate quantitative remuneration information for Code staff as at 30 June 2017

	Senior management	Other material risk-takers	Total
Number of Code staff	2	2	**4**
Fixed remuneration (£m)[1]	0.52	0.17	**0.69**
Variable remuneration (£m)[2]	0.47	0.00	**0.48**
Distribution based on share rights held at 30 June 2017 (£m)	0.02	0.00	**0.02**
Total Remuneration (£m)	1.01	0.18	**1.19**

[1] Base Salary only
[2] Includes a discretionary cash bonus and performance share rights