

**HPS Investment Partners (UK) LLP**  
**MIFIDPRU8 Disclosure**  
**Financial year end 31 December 2022**

**1. Introduction**

- 1.1 HPS Investment Partners (UK) LLP (the “**Firm**”) is authorised and regulated by the Financial Conduct Authority (“**FCA**”) of the United Kingdom and is a “MIFIDPRU investment firm” as defined in the FCA Rules. The Firm is a non-SNI firm for the purposes of the rules in the Prudential sourcebook for MiFID Investment Firms (“**MIFIDPRU**”). This document sets out certain disclosures the Firm is required to make under Chapter 8 of MIFIDPRU.
- 1.2 The Firm is a limited liability partnership and its members are HPS Investment Partners (UK) I, Ltd. (“**HPSUK I**”) and HPS Investment Partners (UK) II, Ltd. (“**HPS UK II**”) which are both wholly owned by HPS Investment Partners, LLC (“**HPS LLC**” and together with its affiliates the “**HPS Group**”). HPS LLC is an investment advisor registered with the U.S. Securities and Exchange Commission and manages investments in various strategies across the capital structure, including syndicated leveraged loans, high yield bonds, privately negotiated senior secured debt and mezzanine investments, asset-based leasing and private equity. HPS LLC provides services to private funds and separately managed accounts (“**HPS Funds**”). The Firm provides sub-advisory services to HPS LLC in respect of the HPS Funds, comprising research, advice and discretionary investment management and execution services.
- 1.3 The Firm is part of a consolidation group for prudential regulation purposes. However, in accordance with MIFIDPRU 8.1.7 R, the Firm is providing these disclosures on a solo basis only.

**2. Significant changes since last disclosure period**

- 2.1 This is the Firm’s first disclosure under the disclosure requirements under MIFIDPRU 8. As such, there have been no significant changes to the information disclosed since the Firm’s last disclosure period.

**3. Governance arrangements**

- 3.1 The Firm, as a MIFIDPRU Investment Firm, is subject to the organisational requirements in 4.3A.1 R of the Senior Management Arrangements, Systems and Controls Sourcebook of the FCA Handbook (“**SYSC**”). The Firm’s governing body is its operating committee (the “**Management Body**”). The Management Body meets at least quarterly to discuss significant matters affecting the Firm and to make strategic decisions. Under the Firm’s governance arrangements, the Management Body has overall responsibility for the business and conduct of the Firm and approves and oversees implementation of the Firm’s strategic objectives, risk strategy and internal governance. All members of the Management Body are required to commit sufficient time to ensure that they can perform their functions within the Firm and to act with honesty, integrity and independence of mind to effectively assess and challenge decisions where necessary and to effectively oversee and monitor management decision-making.
- 3.2 The Firm ensures, as required under SYSC 4.3A.1 R, that the Management Body defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the Firm, including the segregation of duties in the organisation and the mitigation of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of the Firm’s clients.
- 3.3 In order to comply with the requirement in SYSC 4.3A.1 R, the Firm has procedures in place to ensure that members of the Management Body are selected based primarily on the following criteria:

- reputation within the market
- the possession of the necessary knowledge, skills and experience to perform the relevant duties
- whether their addition will complement the Management Body’s collective knowledge, skills and experience in relation to the Firm’s activities, including the main risks it faces
- diversity of viewpoints, backgrounds, experiences, and other demographics

3.4 In accordance with SYSC 4.3A.10 R, the Firm maintains a policy for promoting diversity on the Management Body. The Policy recognises the benefits of having a diverse management body and aims to maintain or increase the diversity of the Management Body in the belief that a desirable longer term goal of maintaining an effective Management Body to support the attainment of the Firm’s strategic objectives and its sustainable development. As the Firm is a relatively small firm with a relatively small Management Body it has chosen not to set specific targets in relation to the diversity of its Management Body at this time.

3.5 The Firm is required to disclose the number of directorships each member of the Management Body holds, broken down into executive and non-executive directorships. As at the date of this disclosure, the members of the Management Body do not hold any other executive or non-executive directorships, excluding entities which do not pursue a predominantly commercial objective, other entities within the HPS Group and HPS portfolio companies.

3.6 The Firm is not required to establish a risk committee, and so has not established such a committee.

#### 4. **Risk Management objectives and policies**

4.1 The Firm’s Management Body is committed to managing the Firm’s risks. The Management Body establishes the Firm’s overall risk appetite by identifying the risks it will be exposed to in pursuing its business objectives and considering whether it is prepared to accept such risks, coordinating as necessary with the HPS Group as a whole.

4.2 “Risk appetite” is the level of risk that the Firm considers is acceptable for a given risk or group of risks. Controls are implemented by the Firm and strategies revised, with the aim of bringing operational and reputational risk within an acceptable range. The aim is for the business to grow and prosper but to achieve that growth without putting the Firm’s business or a material amount of its capital at risk.

4.3 In pursuing its business objectives, the activities of the Firm will give rise to certain risks which carry a potential for harm. Below we have set out a summary of the harm that could potentially be caused as a result of certain categories of risks related to the Firm’s (i) Own Funds requirement; (ii) requirements around its Concentration risk; and (iii) requirements around its Liquidity. We have also set out a summary of the strategies and processes used to manage each of these categories of risk.

#### **Risks Related to the Firm’s Own Funds Requirement**

4.4 The Firm considers the material harms that could result from the ongoing operation of the Firm’s business in its ICARA process. The risks identified include the following:

*Market Risk.* The Firm is subject to risks associated with unforeseen or catastrophic events, including terrorist attacks, natural disasters, cyber-attacks, and the emergence of a pandemic or other public health emergencies, which could create economic, financial, and business disruptions.

These events could lead to operational difficulties that could materially impair the Firm's ability to manage its activities potentially resulting in material financial losses to the Firm. The Firm seeks to manage these risks through continuity and resiliency planning although no assurance can be made that it will successfully implement such plans or that such plans would successfully avoid or mitigate adverse consequences.

*Cybersecurity risk.* Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional damage or interruption that, in either case, can result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information. A breach in cybersecurity could cause harm directly and also expose the Firm to civil liability as well as regulatory inquiry and/or action. The HPS Group has implemented various measures to manage risks associated with cybersecurity breaches, including establishing a business continuity plan and systems designed to detect and prevent cyber-attacks and training of staff.

*Key person risk.* The Firm's business is dependent on the skill and expertise of its staff. Although the Firm believes that its success is not dependent upon any particular individual, the unavailability of particular members of staff could have a material adverse effect on the Firm. The Firm aims to mitigate these risks via contractual protections, competitive compensation and incentive programmes and regular review of non-pecuniary aspects of employment.

*Group risk.* The Firm is dependent on fee income from HPS LLC to cover its expenses and a termination of this arrangement would require the Firm to enter wind-down. Given the Firm's strategic importance to the HPS Group this scenario appears highly unlikely but if it did arise the HPS Group would be expected to terminate arrangements in a controlled manner. The Firm has prepared a wind-down plan which would be implemented in the event of a more sudden withdrawal.

*Conduct risk.* The Firm is exposed to the risk that a member of staff engages in conduct which adversely affects the Firm. Misconduct by an employee of, or contractor to, the Firm or one of its affiliates, or even unsubstantiated allegations of such misconduct, could result in direct financial harm to the Firm or harm its reputation. The Firm mitigates this risk through its governance framework, maintaining robust compliance and monitoring policies, training of employees and effective reporting and whistleblowing procedures.

The Firm has not considered it necessary to ascribe additional capital for these risks.

#### Concentration Risk

4.5 The Firm has identified the following risks arising from its strategy, which relate to the Firm's relationships with, or direct exposure to, a single client / counterparty:

- as described above the Firm's only client and main debtor is HPS LLC. Given the Firm's relationship with HPS LLC and its place in the HPS Group, the Firm expects HPS LLC's support to continue and deems the risk of not being able to collect amounts owed to be low
- the Firm has cash deposits with a small number of financial institutions, exposing the Firm to risk in the event of any such institution's insolvency. The Firm aims to mitigate this risk by considering the credit rating of counterparties with whom it deposits cash

#### Liquidity

4.6 The Firm has identified the following risks of harm arising from its strategy which relate to the Firm's Liquidity obligations:

- Certain assets cannot be converted to liquid assets within a reasonable time, including under stressed conditions
- Liquid assets are not denominated in the same currency as expected outflows
- The Firm's financing arrangements are or become concentrated in terms of counterparties, maturity, any security provided, products, currencies and geographical location

The Firm manages and mitigates the risks of harm identified above and other liquidity risks through various strategies and processes including active monitoring of cash balances, tracking of expenses and escalation of any issues identified.

## 5. **Own Funds and Own Funds Requirement**

### Own Funds

5.1 The Firm is subject to the disclosure requirements stipulated in MIFIDPRU 8.4.1 R. As such, the tables below set out:

- details of common equity tier 1 items, additional tier 1 items, tier 2 items, and the applicable filters and deductions applied in order to calculate the own funds of the Firm (i.e. a composition of regulatory own funds)
- a reconciliation of the Firm's composition of regulatory own funds with the capital in the balance sheet in the audited financial statements of the Firm
- a description of the main features of the common equity tier 1 instruments, additional tier 1 instruments and tier 2 instruments issued by the Firm

Please see the tables below which set out these disclosures.

<b>A. Composition of regulatory own funds</b>			
	<b>Item</b>	<b>Amount (GBP thousands)</b>	<b>Source based on reference numbers/letters of the balance sheet in the audited financial statements</b>
<b>1</b>	<b>OWN FUNDS</b>	12,886	
<b>2</b>	<b>TIER 1 CAPITAL</b>	12,886	
<b>3</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	12,886	
4	Fully paid up capital instruments	2,970	Page 8, Members' capital
5	Share premium		
6	Retained earnings		
7	Accumulated other comprehensive income		
8	Other reserves	9,916	Page 8, Other reserves
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
19	CET1: Other capital elements, deductions and adjustments		
<b>20</b>	<b>ADDITIONAL TIER 1 CAPITAL</b>	0	
21	Fully paid up, directly issued capital instruments		
22	Share premium		
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
24	Additional Tier 1: Other capital elements, deductions and adjustments		
<b>25</b>	<b>TIER 2 CAPITAL</b>	0	
26	Fully paid up, directly issued capital instruments		
27	Share premium		
28	(-) TOTAL DEDUCTIONS FROM TIER 2		
29	Tier 2: Other capital elements, deductions and adjustments		

<b>B. Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements</b>				
		<b>Balance sheet as in published/audited financial statements</b>	<b>Under regulatory scope of consolidation</b>	<b>Cross-reference to template OF1</b>
		<b>As at period end (GBP thousands)</b>	<b>As at period end</b>	
<b>Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements</b>				
1	Property, plant and equipment	734		
2	Debtors	50,148		
3	Cash in bank and in hand	4,146		
	<b>Total Assets</b>	55,028		
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements</b>				
1	Creditors: Amounts falling due within one year	41,455		
2	Deferred compensation	687		
	<b>Total Liabilities</b>	42,142		
<b>Shareholders' Equity</b>				
1	Member's capital	2,970		4
2	Other reserves	9,916		8
	<b>Total Shareholders' equity</b>	12,886		3

<b>C. Own funds: main features of own Instruments issued by the Firm</b>
<p>The CET 1 instruments issued by the Firm consist of LLP members' capital. The instruments have been issued on an <i>ad hoc</i> basis as and when new LLP members have been admitted or when the Firm has required additional capital. The LLP members' capital does not have a nominal value. Its value reflects the amount paid in by the relevant member. Under the terms of the Firm's LLP Agreement, the LLP members' capital is non-convertible and perpetual (it does not have a maturity date), carries no right to dividends, coupon or other forms of income (instead, LLP members may, at the discretion of the Firm be awarded a share in the profits of the Firm at the end of the financial year) and is subject to restrictions on withdrawal in accordance with the requirements of MIFIDPRU 3.3.17 R</p>

## Own Funds Requirements

5.2 The below table relates to the Firm's own funds requirements under MIFIDRU 4.3.

<p><b>K-Factor Requirement</b></p> <p>(calculated by the Firm in accordance with MIFIDPRU 4.6)</p> <p>(GBP thousands)</p>	<p>The Firm's K-Factor Requirement is:</p> <p>810</p>	<p>The Firm's K-Factor Requirement can be further broken down as follows:</p>
		<p><b>the sum of:</b></p> <ul style="list-style-type: none"> <li>- the K-AUM requirement;</li> <li>- the K-CMH requirement; and</li> <li>- the K-ASA requirement,</li> </ul> <p>which is: 810</p>
		<p><b>the sum of:</b></p> <ul style="list-style-type: none"> <li>- the K-COH requirement; and</li> <li>- the K-DTF requirement.</li> </ul> <p>which is: 0</p>
		<p><b>the sum of:</b></p> <ul style="list-style-type: none"> <li>- the K-NPR requirement;</li> <li>- the K-CMG requirement;</li> <li>- the K-TCD requirement; and</li> <li>- K-CON requirement,</li> </ul> <p>which is: 0</p>
<p><b>Fixed Overheads Requirement</b></p> <p>(calculated by the Firm in accordance with MIFIDPRU 4.5)(GBP thousands)</p>	<p>The Firm's Fixed Overheads Requirement is: 4,246</p>	

5.3 As part of its ICARA process, the Firm assesses the adequacy of its own funds in accordance with the overall financial adequacy rule in MIFIDPRU 7.4.7 R.

5.4 In particular, the Firm assesses the own funds it requires to:

- address any potential harms it has identified which it has not been able to mitigate
- address any residual harms remaining after mitigation
- ensure an orderly wind down of its business

5.5 As the Firm is not an SNI firm, it is required to use its K-factor requirement as a starting point for determining the appropriate amount of own funds to cover risks of harm to the business as a going concern, to the extent that such risks have not or cannot be mitigated.

5.6 The Firm assesses whether and to what extent a K-factor requirement covers each risk of harm identified during the ICARA process on a going concern basis (to the extent the risk of harm is not or cannot be adequately mitigated).

5.7 For this purpose, each risk of harm that is not adequately mitigated is mapped to the corresponding K-factor requirement. To the extent that the applicable K-factor requirement is insufficient to cover

the post mitigation risk of harm or to the extent that there is no applicable K-factor requirement, the Firm will calculate a suitable amount of additional capital.

- 5.8 As part of its ICARA, the Firm also assesses the level of own funds that it would need in order to effect an orderly wind down, taking into account any additional risks of harm it identifies and whether the Firm's fixed overheads requirement adequately covers such risks.

## 6. **Remuneration policy and practices**

### **Qualitative disclosures**

- 6.1 The Firm aims to ensure that individual employees' remuneration is consistent with and promotes sound and effective risk management and does not encourage excessive risk-taking while supporting the Firm's business objectives. The Management Body has adopted remuneration policies and practices it believes to be in line with the rules and guidance laid down by the FCA and SYSC 19G (the "MIFIDPRU Remuneration Code") and is responsible for the implementation of such policies and practices. The Management Body periodically reviews the Firm's policies in accordance with the guidance and rules in SYSC 19G.3. The Firm has not established a remuneration committee, pursuant to its classification as a non-SNI firm subject to the standard remuneration requirements. For the purposes of SYSC 19G.5.1R the Firm has identified the members of its Management Body as material risk takers ("MRTs").
- 6.2 The Firm's remuneration practices include an assessment of an individual's performance, based on both quantitative criteria (for example, financial performance of the individual and their business unit) and qualitative criteria (for example, holistic assessment of general adherence to certain policies and procedures). The qualitative criteria used may include, among others, consideration of the employee's contribution to the overall control of downside risk and volatility in the investment portfolios and identification of attractive return opportunities, and variable remuneration may be adjusted accordingly.
- 6.3 The Firm seeks to achieve its objectives by offering a balanced total compensation program comprising a mix of fixed compensation, including base salary and other benefits, and variable compensation in the form of cash payments. In addition, certain employees may be awarded incentive plans which entitle the recipient to a fixed percentage of carried interest earned by the HPS Group on the realisation of certain investments by funds managed by entities in the HPS Group, subject to the governing documents of the relevant funds and their associated carry vehicles. Variable compensation is based on the financial performance of HPS UK and the HPS Group as a whole, as well as the individual's own performance, taking in to account the individual's annual performance review (including peer review) and non-financial criteria, such as compliance with HPS UK's policies and procedures and risk management framework. The Firm aims to ensure that the fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to enable the operation of a fully flexible policy on variable remuneration, including the possibility of paying no variable remuneration component.
- 6.4 The amount the Firm makes available for variable remuneration is subject to adjustments for current and future risks and the cost of the capital and liquidity required as determined by the Firm. This includes risks relating to the achievement of the HPS Group's business strategy and its financial performance. The Firm may apply malus (adjustment) and clawback (recovery) provisions to an MRT's variable remuneration in circumstances where it is warranted due to the MRT's conduct in accordance with the MIFIDPRU Remuneration Code requirements.
- 6.5 In exceptional and justified circumstances, the Firm may award guaranteed variable compensation, granted as part of a contractual obligation. Guarantees for MRTs will be subject to appropriate level

of approvals, limited to the first year of employment only and are awarded to attract a new employee.

- 6.6 In certain circumstances and at the Firm’s absolute discretion, severance payments may be made. In such circumstances, severance pay is determined on a case-by-case basis and involves input from the Firm’s control functions as appropriate. Any payments related to early termination of an MRT employment contract will reflect performance achieved over time and will be designed in a way which does not reward failure or misconduct.

**Quantitative disclosures**

- 6.7 The total number of MRTs identified by the Firm under SYSC 19G.5 as at 31 December 2022 was 7.
- 6.8 Remuneration paid or awarded for the financial year ended 31 December 2022 comprised fixed remuneration (salaries, allowances and director fees) and variable remuneration. The following tables show aggregate quantitative remuneration information for individuals identified as “Senior Management” and “Other Staff” as required under MIFIDPRU 8.6.8R (4) and (5)(a) and (b). The Firm had no Other MRTs.

<b><i>Fixed and Variable Remuneration</i></b>	
<i>Senior Management</i>	
Total remuneration awarded to Senior Management	£17,938,909
Fixed remuneration awarded to Senior Management	£888,188
Variable remuneration awarded to Senior Management	£17,050,721
<i>Other Staff</i>	
Total remuneration awarded to Other Staff	£38,256,318
Fixed remuneration awarded to Other Staff	£7,791,909
Variable remuneration awarded to Other Staff	£30,464,409

<b><i>Guaranteed Variable Remuneration</i></b>	
Number of Senior Management that received guaranteed variable remuneration awards	0
Total amount of guaranteed variable remuneration awards made to Senior Management	-

<b><i>Severance Payments</i></b>	
Number of Senior Management that received severance payment awards	0

Total amount of severance payment awards made to Senior Management	-
Highest severance payment awarded to an individual classified as Senior Management	-