



# Remuneration Policy

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# Remuneration Policy

## Scope

This policy ("Policy") applies to all employees of Harbour Litigation Funding Ltd ("HLF"), including all directors, officers and any individuals providing services as a contractor or under a secondment arrangement (together "Personnel").

## Background

The Financial Conduct Authority ("FCA") applies several different types of Remuneration Code for different types of regulated firm. The Remuneration Code that applies to HLF is the MIFIDPRU Remuneration Code (the "Remuneration Code") set out in chapter 19G of the FCA's Senior Management Arrangements, Systems and Controls ("SYSC") sourcebook. Under that version of the Remuneration Code, HLF is categorised as an "SNI MIFIDPRU investment firm" and is only subject to those specific provisions of the Remuneration Code that are identified in SYSC 19G.1.6R. The terms of this Policy have been devised in order to enable HLF to comply with its obligations under those provisions.

## Purpose

The purpose of this Policy is to set out a framework for HLF to formulate remuneration policies and practices that:

- must be applied with respect to determining the remuneration of all Personnel;
- are consistent with and promote sound and effective risk management;
- contain measures to avoid conflicts of interest and encourage responsible business conduct;
- promote risk awareness and prudent risk taking;
- are in line with the business strategy, objectives and long-term interests of the firm;
- are competitive in the market in which they are applied and that will attract, retain and motivate high quality individuals capable of achieving HLF's objectives; and
- ensure that individuals are fairly rewarded for their individual responsibilities and contributions to HLF's overall performance.

Awards must be made in accordance with the terms of this Policy.

For the purpose of this Policy:

- references to "remuneration" and "compensation" include forms of economic benefit received by an individual not ordinarily considered as remuneration (for instance, long-term incentives by way of allocations of carried interest in any funds in respect of which HLF acts as investment sub-advisor ("Funds"). Such economic benefits are only interpreted as "remuneration" and "compensation" for the purposes of this Policy because of the requirements of, and terminology used in, the Remuneration Code (in relation to which their existence is relevant) but should not be considered as remuneration or compensation for any other purposes; and
- any reference to "annual discretionary compensation" is a reference to a bonus payment, in the case of a member of Personnel.

## Remuneration Policies and Practices

### General requirements

The Remuneration Code applies subject to a principle of proportionality – i.e. regulated firms are required to comply with the Remuneration Code in a manner that is appropriate to its size and internal organisation and to the nature, scope and complexity of its activities. In addition, although the Remuneration Code sets out the minimum requirements for a regulated firm, the FCA considers it good practice for a firm to assess whether going beyond those minimum requirements would contribute to sound risk management or a healthy firm culture. In setting the terms of this Policy, the HLF Board (the "Board") has taken these principles into account.

Remuneration of Personnel should be determined in accordance with all applicable legal and regulatory requirements. In particular, the remuneration practices of HLF should not discriminate between Personnel on the basis of any protected characteristic within the meaning of the Equality Act 2010 – namely age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex or sexual orientation.



## Oversight of remuneration policies and practices

The Board is responsible for approving, overseeing and periodically reviewing HLF's remuneration policies and practices.

In its supervisory function, the Board is responsible for the determination of the remuneration of Personnel by way of salary, annual discretionary compensation and any long-term incentives by way of carried interest. The Managing Director & Chief Investment Officer is responsible for determining origination commission.

The Board is responsible for ensuring that this Policy is effectively implemented within the organisation.

## Fixed and variable components of remuneration

- The assessment of reward through remuneration should be made with reference to clear and relevant objectives set within a balanced framework in order to facilitate a rounded approach to objective setting.
- Remuneration should be set with a view to focusing on total compensation (salary, annual discretionary compensation and the value of long-term incentives) with the variable compensation element (namely annual discretionary compensation and long-term incentives) differentiated by performance and, in the case of allocations of carried interest, experience and contribution.
- There must always be a clear distinction between fixed and variable remuneration.
- In allocating individual remuneration components to fixed or variable remuneration, it is the quality and purpose of the component that is decisive, not the label applied to it.
- Fixed remuneration: (i) should primarily reflect a staff member's professional experience and organisational responsibility as set out in the staff member's job description and terms of employment; and (ii) should be permanent, pre-determined, non-discretionary, non-revocable and not dependent on performance.
- Variable remuneration: (i) should be based on performance or, in exceptional cases, other conditions; (ii) where based on performance, should reflect the long-term performance of the staff member as well as performance in excess of the staff member's job description and terms of employment; (iii) includes discretionary pension benefits; and (iv) includes carried interest.
- Total remuneration should be structured so as to ensure that a significant proportion of an individual's potential compensation is linked to delivering objectives that are beneficial or enhance the performance of the Funds, in order to ensure that the interests of Personnel are aligned with the interests of investors in the Funds. However, the fixed and variable components of the total remuneration must be appropriately balanced, and the fixed component must represent a sufficiently high proportion of total remuneration as to enable the operation of a fully flexible policy on variable remuneration – including the possibility of paying no variable remuneration component.
- In determining what is the appropriate balance between fixed and variable remuneration, HLF will take account all relevant factors, including:
  - the business activities of the firm and the associated prudential and conduct risks; and
  - the role of the individual in the firm.
- Variable remuneration is not payable to members of the Board of HLF who do not perform any executive function in HLF.

## Assessment of performance

- Performance-related awards of annual discretionary compensation are, subject to the terms of this Policy, at the discretion of the Board and guaranteed annual discretionary compensation entitlements may only be agreed on an exceptional basis in the first year of an individual's employment with HLF.
- Performance-related awards of carried interest in the Funds granted by way of long-term incentives are, subject to the terms of this Policy, at the discretion of the Board.
- Performance-related remuneration awards for Personnel who are not in control functions should be based on a combination of an assessment of HLF's overall performance (financial and non-financial), of the performance of the relevant individual and the individual's contribution to HLF's overall performance.
- Remuneration should encourage responsible business conduct.
- Assessments as to the extent to which performance has been achieved should be made by way of considered discretion rather than by applying an overly formulaic approach which, by its nature, may encourage inappropriate risk taking and cannot cover all scenarios.
- Remuneration of staff should be determined in accordance with all applicable legal and regulatory requirements. In particular, the remuneration practices of HLF should not discriminate between Personnel on the basis of any protected characteristic within the meaning of the Equality Act 2010 – namely age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex or sexual orientation.



### Application to HLF Personnel

- HLF's objectives (both for the next year and longer term) are defined on an annual basis by the Board and cascaded down by the senior managers to their teams. Individual objectives are discussed at an individual's review meeting and agreed between the individual and the person to whom they report shortly after HLF's annual objectives have been determined. An individual's objectives will be defined with a view to HLF meeting its objectives.
- HLF articulates a clear statement of its risk appetite and its approach towards identifying, measuring and managing risk. Code Personnel are required to have regard to this when carrying out their responsibilities. In determining the remuneration for Code Personnel, the firm takes into account the relevant risks, including any particular risks that might arise in the context of specific roles that are carried out by Code Personnel.
- HLF has implemented a Corporate and Social Responsibility Policy (CSR) which must be adhered to by all individuals. Individuals are expected to comply with the CSR and their remuneration can be adjusted to reflect the extent to which they have demonstrated adherence to the policy.
- A quarterly performance review process is conducted for all Personnel. During the course of the process, [a manager] will discuss with an individual their performance against objectives and behaviours outlined as expected from all employees (as specified in their respective job descriptions or contracts of employment. Any future learnings and development plans will be discussed with individuals at their review meetings.
- For senior management and investment team members any performance-related aspects of the remuneration package consist of an annual discretionary payment and long-term incentives by way of participation in the Funds through the allocation of carried interest. Awards of long-term incentives are made on the basis of the experience and responsibilities of individuals as well as on the basis of their performance.
- The investment team (i.e., case originators and case managers) is compensated by the firm by a combination of market salary, origination commission and annual discretionary bonus.
- HLF has implemented a Commission Plan setting out commission that is payable subject to an investment being approved by the Funds, signed up and conditions and/or milestones. Milestones apply to only certain types of investments. Commission is typically payable in tranches, such that the CIO has discretion to review the performance of the investment and make changes to the aggregate commission payable should there be a decline in the performance of the investment, or the investment is discontinued prior to the payment of the next tranche. The Commission Plan is reviewed annually.
- The conditions and/or milestones to payment are intended to ensure that commissions only reward the origination of investments of sufficient quality. The award is approved by the CIO.
- There is a discretionary bonus element of the origination commission subject to meeting certain individual and group targets and behavioural elements to encourage performance, business development and collaboration, including compliance with the CSR. The award is at the discretion of the CIO.
- The Legal & Compliance and Operational teams are compensated by a combination of market salary and annual discretionary bonus. Any discretionary bonus is determined by reference to the individual's performance in respect of performing the relevant control or operational functions (as applicable) and not by reference to the financial performance of HLF.
- Taking into account the expected value of awards, the performance-related elements of an individual's remuneration can make up a proportion of their total remuneration package whilst maintaining an appropriate balance between fixed and variable elements.
- An individual's remuneration by way of salary and annual discretionary compensation is determined by the Board having taken recommendations from Line Managers in respect of employees they manage.
- The pool of capital available for the payment of annual discretionary compensation is determined by the HLF Board, having regard to HLF's available profits and capital requirements.

### Control functions

Personnel engaged in control functions, such as risk management and compliance, should be independent, have appropriate authority, and be remunerated adequately to attract qualified and experienced personnel, and in accordance with the achievement of objectives linked to their functions. The risk management and compliance team are expected to have input into individual remuneration decisions where there is cause for concern about risky behaviour, and their own remuneration must be overseen directly by the firm's governing body or remuneration committee. The FCA expects the ratio of variable to fixed compensation to be significantly lower for individuals performing compliance functions than for investment professionals.

Application: The General Counsel is functionally independent from the other business units within HLF and reports directly to the Managing Director. and Chief Compliance Officer is functionally independent from other business units within HLF. The Chief Compliance Officer reports to the General Counsel.



The risk management and compliance team act independently, have meaningful authority and have a significant input in defining the parameters of awards of remuneration.

In order to minimise the risk of conflicts of interest for Personnel who carry out control functions:

- any variable element to the remuneration of such Personnel is determined by reference to the performance of such Personnel as measured by reference to their control functions and are not affected by the economic performance of HLF; and
- the remuneration for Personnel engaged in control functions is directly overseen by the Board in its supervisory function.

#### Remuneration and capital

A firm must ensure that total variable remuneration does not limit the firm's ability to strengthen its capital base. In effect, the firm's obligation to pay annual discretionary compensation and other performance-related compensation must be sufficiently flexible that it can instead divert resources towards meeting its capital requirements if necessary.

The pool for awards of variable remuneration by way of an annual discretionary compensation award is, subject to the terms of the Policy, determined by the Board at the commencement of the year based on HLF's budget. There is also flexibility provided to the Board in determining whether the pool is fully utilized. The firm's ability to strengthen its capital base is therefore not limited and is sufficiently flexible that the firm can divert resources to meeting capital requirements if necessary.

Performance-related remuneration will only be awarded to the extent sufficient profits are available to make such awards without reducing the ability of HLF to meet its capital adequacy requirements.

Variable remuneration achieved through long-term incentives is dependent on the success of the investments of the Funds and is paid out of the proceeds of the Funds and therefore does not affect the capital base of HLF.

#### Exceptional government intervention

Firms that have benefitted from exceptional government intervention are subject to more stringent restrictions on the value and structure of variable remuneration paid to Personnel. This rule is not applicable to the HLF as it has not benefitted from exceptional government intervention.

## Other Considerations

Consideration should also be given to the following policies and procedures:

- Conflicts of Interest Policy

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