J. STERN & CO. LLP - PILLAR III DISCLOSURE AS AT 31 MARCH 2021

The Capital Requirements Directive ('the Directive') of the European Union forms a revised regulatory capital framework across Europe with which FCA regulated investment firms must comply. The regulation governs 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'). J. Stern & Co LLP is authorised and regulated by the UK Financial Conduct Authority as a BIPRU firm so as such is subject to the capital adequacy rules set out in the FCA's BIPRU sourcebook.

This Pillar 3 disclosure as at 31 March 2021 is produced in accordance with the disclosure requirements applicable to Stern as a BIPRU firm and as established the rules in BIPRU 11 of the FCA's handbook.

The framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital requirement calculated for the Firm's credit and market risk components and the fixed overheads requirement;

- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate and to evaluate the impact that any other risk types have on the firm's capital requirement; and

- Pillar 3 requires disclosure of specific information about the firm's risk management controls, capital position and remuneration.

In accordance with BIPRU 11, we are permitted to omit required disclosures if we 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, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

Scope and application of the requirements

J. Stern & Co. LLP is categorised as a BIPRU firm by the FCA for capital purposes and is not authorised to take proprietary trading positions or hold Client Money. The Firm is not required to prepare consolidated reporting for prudential purposes. The activities of the Firm and its associated entities are more fully described on its website www.jsternco.com.

The Pillar 3 disclosure is reviewed on an annual basis and will be issued as soon as practicable after the completion of the Firm's annual financial statements. The disclosure is subject to the approval of the Firm's Partners and information contained in this document does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm. The Pillar 3 disclosure is published on our website at the key information page.

Risk management

The Firm is governed by its members ("Partners") 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 Partners determine how the risk our business faces may be assessed and mitigated and evaluate, on an on-going basis, the arrangements required to manage those risks. The Partners meet periodically and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The Partners manage the Firm's risks though a risk management framework supported by policies and processes implemented according to relevant laws, standards and rules. These policies and processes are updated as required.

As required according to GENPRU 1.2 and the Pillar 2 rule, the Firm maintains an Internal Capital Adequacy Assessment Process document ('ICAAP') to establish whether the Firm is required to hold any additional capital to cover any risks the Firm is exposed to which are not fully captured under the Pillar 1 requirements.

The Partners review the Firm's risk controls and other mitigation arrangements and assess their effectiveness. The Partners have identified that market and credit risks are the main areas of risk to which the Firm is exposed before any mitigation techniques are taken into consideration. Where the partners identify material risks, they consider mitigating measures and residual impact and probability of those risks to materialise and use that exercise to conclude whether the allocation of any additional financial resources may be required.

Our Firm 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 management and performance fees receivable from the funds under its management. The main mitigation technique that the Firm uses, in particular in respect of market and credit risk, is that the fixed costs of running the Firm are very low; and the variable costs vary in the same way as the revenue does.

The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk. The Firm is subject to the Fixed Overhead Requirement 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

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed. Its capital is summarised as follows as at 31 March 2021:

Capital item	£ '000
Tier 1 Capital - Share capital	300
Deductions	0
Tier 2 Capital	0
Deductions from Tier 2	0
Tier 3 Capital	0
Deductions from Tier 3	0
Total Regulatory Capital	300

The main features of the Firm's capital resources for regulatory purposes are as follows:

Capital item	£ '000
Total Regulatory Capital after deductions	300
Market Risk (BIPRU 11.5.12)	0

Capital item	£ '000
Credit Risk (BIPRU 3)	42
Fixed Overheads Requirement	24
Base Capital Resource Requirement (GENPRU 2.1.48R)	43
Surplus	191

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

- Its base capital requirement of €50,000; or
- The sum of its market and credit risk requirements; or
- Its Fixed Overhead Requirement.

We have identified only very modest credit risk exposure classes or the minimum capital requirements for market risk as we believe that they are immaterial.

The latest ICAAP establishes that the Firm will maintain an additional capital resource of £10,000 under Pillar 2.

Under BIPRU and GENPRU, as at 31 March 2021, the Firm was subject to the base capital resources requirement of €50,000. The firm's Base Capital Resource Requirement, as at 31 March 2021, was £43,000. This is the firm's highest capital requirement, and the surplus of regulatory capital under BIPRU and GENPRU was £191,000.

J. Stern & Co. LLP - Remuneration code disclosure 2021

This disclosure is being made by J. Stern & Co. LLP in accordance with the Pillar 3 disclosure requirements as set out in BIPRU 11.5.18. This disclosure is completed on the basis that it is a BIPRU firm that is subject to the remuneration rules set out in SYSC 19C and is eligible to apply principles of proportionality pursuant to the BIPRU Remuneration Code.

The BIPRU Remuneration Code affects all staff who have a material impact on the firm's risk profile, including a person who performs a significant influence function for a firm, a senior manager, risk takers and staff receiving total remuneration that takes them into the same remuneration bracket as senior management or risk-takers of a firm. Collectively, such staff are identified as BIPRU Remuneration Code staff.

A senior manager is defined as an individual employed by the firm to whom the governing body (or a member of the governing body) of the firm has given responsibility for management and supervision, and who reports directly to the governing body, a member of the governing body, the chief executive, or the head of a significant business group.

The Firm has established and maintains remuneration practices that are consistent with and promote effective risk management and prevent exposure to excessive risk. Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee. Individuals are rewarded based upon their contribution to the overall strategy and performance of the business taking into accounts factors including client performance, operational efficiency and effectiveness, business development and overall performance, reliability and effectiveness.

For the year ending 31 March 2021 the Firm had five BIPRU Remuneration Code staff, defined as Partners, risk takers and any staff involved in Senior Managers function SMF1 – SMF27, and any employee whose total remuneration takes them into the same remuneration bracket as those previously mentioned. Aggregate remuneration paid to BIPRU Remuneration code staff for the year ended 31 March 2021 was £985,000. The amount of variable remuneration awarded to one BIPRU remuneration code staff member was £20,000.