John Street Capital Limited
MiFIDPRU 8 Disclosure

Application

This disclosure is for the period ended September 2023. It does not reflect changes in the structure of the entity after that date and these changes will be reflected in the next iteration of this disclosure. All references are as at end September 2023.

There have been no material changes to the business since the firm's Pillar III disclosure was published.

Introduction and Scope

John Street Capital Limited (***JSCL/the Firm***) is a Collective Portfolio Management Investment (***CPMI***) firm which is authorised and regulated by the Financial Conduct Authority (FRN: 912506). JSCL is also registered with the National Futures Association in the US (NFA ID: 0526505)

JSCL is a non-Systemically Non-Interconnected (non-SNI) firm and the disclosures in this document are made on that basis.

As a CPMI firm, JSC must calculate its "Own Funds" and "Overall Financial Resources Requirement" based on the higher amount between the calculations in the AIFMD and MIFIDPRU requirements.

As a non-SNI MiFIDPRU firm, JSCL is required to make disclosures relating to:

- Corporate Governance
- Risk Management Policies and Objectives
- Own funds
- Own funds requirements
- Remuneration Policy and Practices

This document sets out JSCL's public disclosure as required by MIFIDPRU 8 of the FCA Rules. The calculations shown in this disclosure relate to MIFIDPRU assets under management/advice only, not AIFMD assets. However, the Firm applies the same risk controls and governance processes to both sets of assets.

The Firm is part of a MIFIDPRU consolidation group with its immediate UK parent company. These disclosures are made on the basis of both the solo and the consolidated MIFIDPRU Group position. The Firm has chosen not to apply the Group Capital Test (***GCT***). While the Group would pass the GCT there is no capital or liquidity benefit in applying the GCT.

Corporate Governance Arrangements

At a group level, the various holding companies that make up the JSCL ownership structure have periodic formal board meetings to receive and review appropriate management information relating to the regulated entity, including financial data such as own funds and liquidity. Some of the owners of the ultimate holding company are also on the board of JSCL, and other group companies.

The Boards of each entity within the Group are responsible for setting the strategy of each firm within the overall requirements and expectations of the ultimate parent. Every Board has at least one director who is also a director and owner of the ultimate parent company.

The Firm is an owner-managed entity with some of the Controllers taking an active role in the management body. There are fourteen employees across the JSCL group and all staff work in a small open plan office which fosters a culture of transparency.

The Board meets once a quarter in order to oversee the effectiveness of the strategy of the Firm, to deal with matters reserved for it and to review and sign off the ICARA and statutory accounts.

The Board has set up sub-committees which meet monthly to review formally key management information. These Committees are:

- Risk/Operations Committee
- Audit Committee (function fulfilled by the Board)
- Valuation Committee
- Management Committee/Board of Directors

JSCL relies on the exemption from the need for Remuneration and Nomination Committees at MIFIDPRU 7.1.4R, though it does maintain a Risk Committee as this is considered to be an essential part of the effective governance of JSCL as an asset manager.

The Risk Committee is a sub-committee of the Board in order to give structure and formality to the Firm's management of operational and investment risks. The Committee is attended by the Directors and key senior operational staff who are held to account for their management of risk on a monthly basis.

The Committees set out above are chaired by a Board Member who is not involved in the investment process of the Firm in order to provide independent challenge. Each Committee has its own terms of Reference setting out its remit, quorum, composition and the ability to seek external legal advice in the event such is needed.

The Compliance and MLRO functions are carried out by the General Counsel who is also a director of the Firm and independent of the investment process.

Risk is managed by Filip Wuytack who is the Chair of the Risk Committee which is independent of the investment and compliance functions and committees.

Portfolio managers/traders do not have the ultimate decision over risk decisions. The Risk Officer has the power to overrule individual transactions. The Risk Officer is also central to the algo development/testing and signoff process.

The number of Directorships held by each member of the JSC Board is summarised below. In accordance with MiFIDPRU 8.3.2R, this excludes executive and non-executive directorships held in organisations which do not pursue predominantly commercial objectives and executive and non-executive directorships held within the same Group:

Member	Committee	Title	Directorships
Samina Thind	Board	Director	John Street Capital Limited
Judith Nechvatal	Board	Director	John Street Capital Limited John Street Capital Associates Limited
Robert Pettit	Board	Director	John Street Capital Limited

	Management Committee Risk Committee Investment Committee Valuation committee		John Street Capital AG
Johannes Hoff	Board Management Committee Risk Committee Investment Committee	Director	John Street Capital Limited John Street Capital AG
Kavin Vijayakumar	Board	Director	John Street Capital Limited

Risk and Compliance undertake a "second line of defence" role within the Firm by advising the business on risk and compliance matters and overseeing the effectiveness with which the business implements this advice and the associated procedures. The Firm also engages the services of an external consultant to provide independent assurance in the form of advice to the Compliance Officer and a third line of defence in the form of independent audits of the effectiveness and appropriateness of compliance arrangements at the Firm. The external consultant has direct access to the directors of the parent entity.

The Firm maintains a conflicts of interest register which is reviewed at least quarterly by the Board, alongside other conflict management tools such as personal account dealing controls, registers of other business interests, allocation and aggregation policies, a bribery policy and gift and hospitality policies.

As an owner-managed business, where staff are invested alongside external investors in the Fund (and unable to exit ahead of existing investors) there is considered to be an alignment of the interests of the investors and the Firm. The Firm intends to increase compensation by way of investment in the funds to further align staff interests with the long-term interests of investors. By requiring staff to remain in the funds until at least their departure from the firm.

JSCL is a privately held company and is not obligated to publish a diversity and inclusion statement. However, JSC is committed to finding the best staff with the right skills to add value to the business, regardless of gender, ethnicity, sexual orientation or other factors and seeks to operate a hiring process aimed at identifying such candidates. The Firm has implemented a Diversity Policy.

JSCL is a small firm of 5 directors and 6 employees in the UK. The Firm has never had anyone depart. Consequently, there are few hiring opportunities, unless to manage the growth of the firm or to replace exiting staff.

As such, JSCL does not seek to apply specific quotas as the small number of staff means that one hire will have a statistically disproportionate impact which will render the data meaningless. The Board currently represents a broad mix of gender, ethnicity, age and skills.

JSCL operates an open, transparent and respectful culture, recognising that differences of opinion and ideas are drivers of better business decisions.

The JSCL Board will review annually its hiring process to ensure that it remains appropriate given the Diversity, Equity and Inclusion requirements and statements of the FCA and take steps to rectify any identified issues.

The Firm makes no claims as to the sustainability of any of its products or for the operation of JSCL. However, JSCL does seek to operate in an ethical and sustainable manner, as far as reasonably possible.

Risk Management Policies and Objectives

The Firm divides its risk management approach into two parts which are necessarily interdependent to a degree:

(a) Management of the business and operational risks within JSCL
(b) Management of the liquidity, concentration and counterparty risks within its AIFs and Managed Accounts.

Risk appetite

The JSCL Board, in line with the Board of its parent, has decided that the Group has a low overall appetite for risk in its business operations and encourages staff to escalate and minimise risks wherever possible.

Investment risk is linked to the various strategies operated by the firm, which are managed to varying levels of tolerated volatility.

JSCL and the Group has a conservative approach to tax and regulatory risk.

Business Strategy

The Group's operations and strategy are not complex. JSCL has a revenue stream derived from the management of assets in the form of collective investment schemes (Alternative Investment Funds or AIFs) managed or advised by JSCL, and from a separately managed account (***SMAs***). JSCL's clients are the AIFs and the owners of the SMAs.

Investors in the funds are predominantly institutional investors and wholesale clients who are all *per se* professional clients per the FCA Rules. SMA investors are professional clients, predominantly financial institutions.

JSCL undertakes investor relations activity in respect of the funds and the SMAs.

JSCL operates a number of investment strategies of varying volatility for the funds and the SMAs which are based on algorithmic trading activity in regulated futures markets.

JSCL seeks business from professional investors in well-established jurisdictions such as the US, UK and parts of Asia.

Potential for harm associated with the strategy

The Firm considers there to be relatively limited harm arising from its business strategy, based on the control environment in place. This is based on the Firm's investment strategy focusing on multiple small trades on regulated and deeply liquid futures markets using algorithms that are extensively tested under simulated stressed market conditions:

- Own funds risks centre around the Firm being unable to withstand financial shocks (e.g. a fine and a collapse in revenue);
- Concentration Risk is focused on the insolvency of the bank(s) at which the Firm holds its cash reserves, over-reliance on a small number of clients and over-reliance on a small number of key individuals within the Firm;
- Liquidity risks centre on the Firm having insufficient liquid assets to manage its operational cycle, particularly given the potential income volatility arising from assets managed to a strategy with a higher volatility;
- Liquidity risks of fund and managed accounts and the inability of the firm to meet redemption requests
- Risks to clients: potentially losing more than their original investment, or having their funds frozen and illiquid as a result of the mismanagement of the fund, suffering losses due to trading errors, gearing errors or other operational risk events relating to the management of their funds
- Risks to the market: risks of market distortion from electronic trading, amplified in times of stressed markets

Strategies and processes used to manage each of the risk categories and reduce harm

- Own funds-related risks are managed by maintaining a very significant capital cushion made up of ordinary share capital and retained earnings.
- Concentration Risk is mitigated by regular due diligence on the banks at which the Firm holds funds, seeking additional managed accounts and fund investors and increasing key headcount and cross-training key staff.
- Liquidity risks are managed by ensuring that the Firm's CET1 capital and retained earnings are held only in cash or permitted money market funds, preserving the value of the capital and allowing virtually instant access to funds. Again, the Firm holds liquidity resources significantly in excess of those required to manage the business cycle or wind down the Firm.
- Liquidity risks to the funds and managed account are monitored through frequent and rigorous liquidity simulations across a variety of stressed scenarios. These tests are undertaken more frequently than are required by the rules of the FCA.
- Risks to clients: no investor is ever liable for the loss of more than their original investment in the fund or managed account and liquidity stress testing (plus the nature of the investments entered into by the strategies) reduce the likelihood of the funds or managed accounts being subject to lockups/being gated due to stressed market conditions. The firm operates a rigorous risk management and algorithm development process to mitigate trading and operational risks.
- Risk to markets is managed via a thorough and detailed algorithm testing process which includes simulations of the performance of the algorithm in stressed markets to ensure that it does not distort the market, even under stressed conditions.

Own Funds

The reconciliation of JSCL's "own funds" has been undertaken using the template provided by the FCA at Appendix 1 to this document

Own Funds Requirements

The Firm's own funds requirements are summarised below and set out in full in Appendix 1 to this document.

Senior management monitors the K-Factors on a monthly basis as part of its own funds monitoring. This includes monitoring to ensure that the Firm maintains sufficient liquidity and own funds in order to wind down the business in an orderly fashion, should this become necessary. This information is formally reviewed at least monthly by the Executive Committee of the Firm.

The income and outgoings of the Firm are relatively stable, being a function of the management fees accrued for the assets under management. In monitoring adherence to the own funds requirement, the Firm ignores any accrued performance fee as this is not due and payable until the end of the performance period and it would therefore not be prudent to do so.

The Firm's capital is exclusively CET1 capital, made up of share capital of the original investors in the business and audited retained profits. These are retained in cash and cash-like instruments so that the Firm has ample liquidity and reserves to deal with foreseeable shocks.

The Firm's own funds requirements are (as at 31 March 2023 ('000s)):

a) Sum of K-AUM, K-CMH and K-ASA requirements (£40)
b) Sum of the K-COH and K-DTF requirements (£182)
c) Sum of K-NPR, K-CMG, K-TCD and K-CON requirements (£0)
d) The fixed overhead requirement (£539)

Assessing the adequacy of own funds (MiFIDPRU 7.4.7R)

The Firm has implemented an ICARA process to assess the adequacy of own funds and liquidity at the firm, which is owned by the SMF 16 who is also a member of the Board.

In summary, the process involves:

- The creation of a risk appetite statement (agreed by the Board) concerning the level of risk which the Firm is prepared to tolerate in pursuing its strategic objectives;
- Documentation of a comprehensive firmwide risk assessment which identifies whether there are any risks which are outside, or close to, the Firm's Risk Appetite after the application of controls and determines whether to implement additional controls or provide additional capital against the likelihood of these risks crystallising;
- Calculation of the three months' fixed overhead and K-Factor requirements at the reference date;
- Assess the likelihood of the Firm's strategy causing "broader harms" to the firm, its clients or the broader market and assessing any capital provision required;
- Prepare three year forward projections for the business on the basis of conservative assumptions;
- Stress test the base case against plausible but severe stress scenarios
- Identify the reverse stress test (the point of non-viability of the Firm) – this being a level of AUM from which the Firm is unlikely to recover as it will reflect profound and prolonged issues with reputation and/or performance
- From the point of non-viability of the Firm, model the process of an orderly wind down of the Firm to determine the amount of liquid assets required to wind the Firm down in an orderly fashion with negligible market and client impact.

The process is undertaken by members of the Risk Committee, co-ordinated by the SMF 16 and subject to sense checking and input from external consultants.

The Risk Appetite, Risk Assessment and ICARA are then all agreed by the Board of the Firm at a specially convened Board meeting solely for this purpose.

As well as the appropriateness of the conclusions reached in the ICARA, the Board satisfies itself as to the quality and availability of both own funds and liquid assets and documents whether it is satisfied with these.

Overall Financial Adequacy Rule

As part of its ICARA process, the firm and Group have assessed the adequacy of their own funds in accordance with the overall financial adequacy rule in MIFIDPRU 7.4.7R.

The baseline for regulatory capital is the "Own Funds Requirement" which is the highest of the permanent minimum regulatory capital, the fixed overhead requirement and the k-factor calculation. The Group and JSCL's own funds requirement is the fixed-overhead requirement.

The Group has also undertaken an assessment of any additional own funds necessary to cover potential material harms and to ensure that it can wind-down in an orderly manner to determine its own funds threshold requirement. The ICARA also includes stress testing and scenario planning on own funds and liquid assets.

JSCL and the Group must maintain liquid assets at least equivalent to the higher of the fixed overhead requirement and the costs of an orderly wind-down. JSCL and the Group accordingly carry liquid assets significantly in excess of the amount needed to fund an orderly wind down of the firm.

The ICARA concludes that the Group and JSCL have sufficient capital reserves both in respect of own funds and liquid assets exceeding its regulatory capital obligations. The ICARA is reviewed and approved by the JSCL Board.

Remuneration Policy and Practices

The Firm has implemented a Remuneration Policy setting out how it complies with the requirements of the AIFMD Remuneration Code at SYSC 19B (AIFMD) and SYSC 19G (MIFIDPRU) which has been drawn up in conjunction with external compliance consultants.

SYSC 19G.1.1R (2) applies to JSCL in relation to shares and alternative instruments, Retention Policies, Deferral and Discretionary Pension Benefits.

The Firm pays a market rate for the required skills which is the same regardless of gender or ethnicity of the relevant staff.

The Firm's policy is to pay a market rate of fixed remuneration to ensure it can attract staff and a variable, fully discretionary bonus where:

(a) The performance of the individual in meeting their goals merits the payment; and
(b) Where the financial health of the Firm can support it without sustaining impairment.

The Firm retains the right to claw back variable remuneration earnt as a result of non-compliant/unsanctioned risk behaviours.

Oversight of Remuneration Policies and Practices

As a small, owner-managed firm, it would be disproportionate to institute a formal Remuneration Committee. The Management Committee of JSCL, which includes the holder of the Risk Management, SMF 16 and 17 functions, determine fixed and variable remuneration awards for staff.

Remuneration is reviewed by the Management Committee annually following the auditing of the Firm's financial performance.

In doing so the Management Committee may seek external advice and guidance from JSCL's compliance consultants or, where necessary, from its external counsel.

Control functions

The Control Functions (SMF 16, 17 and Risk Management) are undertaken by a member of the Management Committee. Any variable remuneration related specifically to these activities is based on success in achieving key control-function related outcomes. A proportion of that director's variable remuneration will be linked to the profitability of the company and achieving broader commercial outcomes as a director of the Firm.

Any such variable rewards (and increments to fixed remuneration) are only made where the Management Committee is of the view that such awards will not adversely affect the long-term financial viability of the Firm.

Fixed and variable components of remuneration

JSCL is a small, owner-managed business where the long-term success of the business is directly linked to the rewards of the directors who are also shareholders.

The Firm pays fixed salary to all staff with discretionary bonus awards available where staff have delivered exceptional performance or where the Directors wish to allow staff to participate in profits generated by the work of staff.

Where a member of staff also holds shares in any funds managed by the Firm, they will receive variable reward in the growth of those assets as an investor. JSC encourages staff to have holdings in funds the firm manages in order to align the long-term interests of staff with those of investors. Staff with such holdings must obtain specific approval before redeeming their investment, as the general expectation is that the investment will be held at least until departure from the firm and staff exits should never precede investor exits.

Remuneration and capital

JSCL recognises the need to remunerate staff adequately in order to retain essential skills and knowledge within the business. This may mean rewarding exceptional performance with variable remuneration even where the Firm has not been profitable. However, this will only be done where the Management Committee of JSCL is satisfied that this will not impair the long-term financial viability of the Firm.

Exceptional government intervention

JSCL has not been subject to any form of exceptional government intervention.

Assessment of performance

Staff performance is reviewed annually (also linked to the Certification process for certified staff) and senior management competency, fitness and probity for holders of senior management functions) by the Management Committee.

These reviews include feedback from the Risk and Compliance function holders regarding non-financial aspects of an individual's performance and the Firm retains the right to amend awards based on negative feedback.

Remuneration and material risk-takers

At 31 March 2023

	Fixed	**Variable**	**Total**
MRTs	263,744.72	562,500.00	826,244.72
Non-MTTs	198,962.88	400,000.00	598,962.88
	462,707.60	**962,500.00**	**1,425,207.60**

June 2024

Appendix 1

Composition of regulatory own funds			
	Item	**Amount (GBP 000)**	**Source based on the balance sheet in the audited financial statements**
1	**OWN FUNDS**		
2	**TIER 1 CAPITAL**		
3	**COMMON EQUITY TIER 1 CAPITAL**		
4	Fully paid up capital instruments		
5	Share premium	562	21
6	Retained earnings	58,446	21
7	Accumulated other comprehensive income		
8	Other reserves		
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER1	40,450	
19	CET1: Other capital elements, deductions and adjustments		
20	**ADDITIONAL TIER 1 CAPITAL**		
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		
25	**TIER 2 CAPITAL**		
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		