WINTON CAPITAL MANAGEMENT LIMITED

Capital Requirement Directive Pillar 3 Disclosure

In respect of the year ended 31 December 2018

September 2019

Background

The Capital Requirements Directive ("CRD"), a regulatory framework across the European Union ("EU"), governs the amount and nature of capital credit institutions and investment firms must maintain. The EU issued a revised Regulation and Directive (collectively known as CRD IV) effective 1 January 2014. This was implemented in the UK by the Financial Conduct Authority ("FCA") taking advantage of a number of derogations contained therein, meaning certain investment firms could effectively remain subject to the framework implemented by CRD III.

The FCA's regulatory capital framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risks;
- Pillar 2 requires a firm to express a view on whether additional capital needs to be held for risks not covered by Pillar 1;
- Pillar 3 requires a firm to publish details regarding its risk management processes, underlying risks, and capital position.

The Alternative Investment Fund Managers Directive ("AIFMD") adds further capital requirements based on the alternative investment fund ("AIF") assets under management and professional liability risks.

In the United Kingdom, the CRD and AIFMD capital requirements have been implemented by the FCA in its regulations through the General Prudential Sourcebook ("GENPRU"), Prudential Sourcebooks for Banks, Building Societies and Investment Firms ("BIPRU") and the Investment Funds Sourcebook ("FUND").

Winton Capital Management Limited ("WCM" or the "Firm") is authorised and regulated by the FCA and is categorised as a collective portfolio management investment firm ("CPMI firm"). The Firm does not hold client money or client assets. Although the Firm is an alternative investment fund manager ("AIFM") and falls under the AIFMD regime, it is also subject to the CRD and the Pillar 1, Pillar 2 and Pillar 3 requirements outlined above by virtue of the additional activities it undertakes that fall under the Markets in Financial Instruments Directive ("MiFID").

The Firm is a 100% owned subsidiary of Winton Group Limited ("WG"), a UK-incorporated holding company. WG is the parent of all the companies within the Winton group ("the Group" or "Winton"). In accordance with BIPRU 8, WG is a "parent financial holding company in a Member State", its group is a "UK consolidation group" and the Group is supervised on a consolidated basis.

The Pillar 3 disclosure document has been prepared by the Firm in accordance with the requirements of BIPRU 11 and approved by the Group's Risk Committee. Unless otherwise stated, all figures are as at 30 June 2019, the date of the most recent regulatory returns submitted to the FCA, and reflect the results of the Firm's most recent Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP and Pillar 3 disclosure have been prepared on a consolidated basis.

The rules provide that firms may omit one or more of the required disclosures if they believe that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of the reader relying on that information.

Scope and Frequency of Disclosure

Pillar 3 disclosures will be issued on an annual basis, unless circumstances warrant update on a more frequent basis. The disclosures are published on the Firm's website.

Risk Management Objectives and Policies

Overview

The Firm is an investment management company whose sole business is managing investment funds and providing investment advisory services. The Firm is not authorised to engage in proprietary trading. It takes market, credit and liquidity risks only in support of its asset management business, rather than for the purpose of earning a separate return solely from such risk taking activities, and it does not hold client money.

Winton has implemented a risk management framework that is proportionate to its size and complexity. Winton's risk management aims to identify and assess the risks to the business and assign responsibility for managing them. The major risks are summarised in the Key Risk Register, maintained by Winton's Risk Committee. Investment risk is foremost among these risks but there are several others for example; the risk of cyber-attacks, mis-selling and misrepresentation risk, and regulatory and conduct risk. The internal controls environment allows Winton to manage and mitigate these risks, making responsibilities clear and setting expectations for culture and behaviour throughout the firm.

The responsibilities of the WG board of directors (the "Board") include explicitly addressing all risks inherent in the business. The Board is assisted in its consideration of risk by the relevant committees, particularly the Investment Board and the Risk Committee. The Chief Risk Officer ("CRO") leads an independent risk team and reports to the Chief Operating Officer responsible for operations, technology and risk, and, as appropriate, the Board.

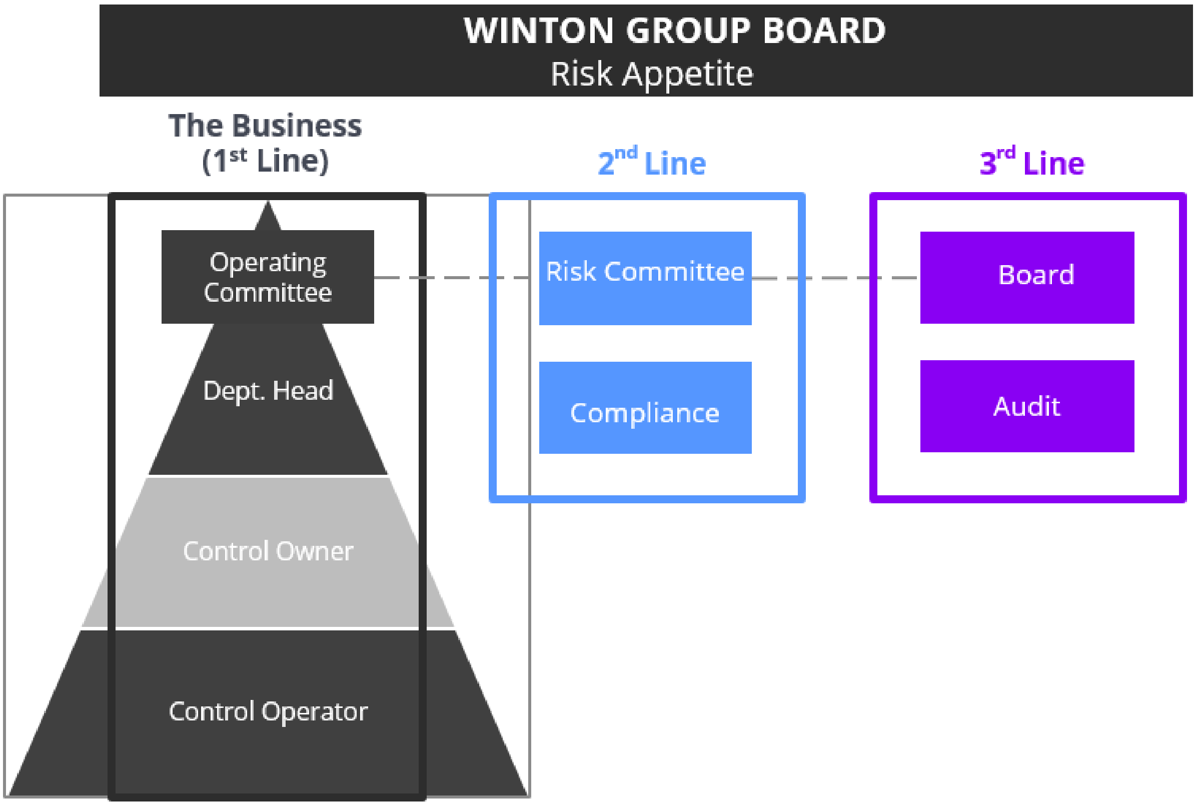
Risk Management Framework

The primary objectives of Winton's risk management framework are to:

- Appropriately identify, assess, manage and monitor the key risks faced by Winton;
- Explicitly assign responsibility for the identification and day-to-day management of risks to senior individuals within the business;
- Ensure that all Winton employees are aware of their responsibilities to manage and control risks, in line with their roles and responsibilities;
- Ensure Winton's compliance with applicable legislative and regulatory requirements, guidance and principles; and
- Ensure that the Board and its sub-committees receive relevant and timely management information to assist in the setting and monitoring of Winton's risk appetite.

The Three Lines of Defence

Winton's risk management framework follows the Three Lines of Defence model, as summarised below:



First Line of Defence: The Business

Departments are responsible for ensuring that a risk and control environment is established as part of day-to-day operations. Heads of Departments assign the roles of control owners and control operators in the department. Line managers oversee and escalate issues to the relevant committees.

Second Line of Defence: Oversight Functions

The compliance department and the risk functions, including the Chief Compliance Officer ("CCO"), CRO and the Risk Committee, are the second line of defence. These functions have the responsibility of independently overseeing the risk management activities of the first line of defence.

Third Line of Defence: The Board, Audit Function and Audit Committee

The third line of defence is conducted by the Board, assisted by external auditors who report independently to the Audit Committee and provide independent assurance over the first and second lines of defence. External audits include the annual statutory financial statements audit and the International Standard on Assurance Engagements ("ISAE") 3402 audit. The internal audit function is also part of the third line of defence.

Key Risk Register

As the focus of Winton's business is on providing investment advice to its clients, its risk management activities are focused on identifying, assessing, monitoring and managing, to the extent feasible, the business and operational risks that impact its ability to deliver this service to its clients. Winton's material risks are detailed in its Key Risk Register, which is maintained by the Risk Committee with input from senior management who have day-to-day responsibility for the identification, assessment and management of risk.

At least annually, the Board reviews the material risks detailed in the Key Risk Register and considers the effectiveness of the mechanisms in place to mitigate and manage those risks. Material risks identified by the Risk Committee are a key component of Winton's ICAAP, which is considered and approved by the Board at least annually.

Internal Controls

Winton's Internal Controls Policy stipulates that departmental risk assessments occur annually to identify key risks and to ensure effective controls are in place to mitigate them. The controls relevant to the provision of investment advice to clients are included in the ISAE 3402 'Report on Controls', which is generally commissioned on an annual basis. This review is carried out by a third-party audit firm, with the objective of providing a comprehensive description of the controls environment and testing the relevant controls.

Of those internal controls not included in the ISAE 3402 report, a sample is selected each quarter for testing by the internal audit function.

Approach to Risk

The Group has identified the key business risks set out below. The Firm is a substantial operating entity within the Group and therefore these risks apply to the Firm as well as to the Group. Each of these key risks, if not appropriately mitigated, could lead to a substantial decline in assets under advisement ("AUA") due to significant redemptions or sustained poor performance, which in turn would lead to a decline in fee income for the Group and the Firm; or could result in a direct risk to the assets and liabilities held on the Group's and Firm's balance sheets.

Investment risk

The most significant risk facing the Group is investment risk. This comprises both market event risk, which is the possibility that an unforeseen event, such as a terrorist strike or natural disaster could cause sudden and extreme trading losses; and systemic risk, the risk of overcrowding in particular markets or trades which could lead to temporary market distortions that prove unprofitable for our investment portfolios.

Key strategies to mitigate these risks include operating our investment portfolios with low levels of leverage, diversifying our holdings across many liquid markets, and designing our investment systems such that they do not require rapid portfolio rebalancing in extreme market conditions.

Non-investment risks

Regulatory and conduct risk

This is the risk that a change in laws and regulations will directly affect Winton's investment activities, or that the retrospective reinterpretation of existing regulations or inappropriate employee behaviour leads to regulatory fines. Examples of regulatory interventions that could have a negative impact on Winton's business include transaction taxes, short sale restrictions, restrictions on commodity futures trading, and foreign exchange controls.

While it is not possible to mitigate all such risks, Winton's Compliance function monitors proposed and actual regulatory changes. Winton continues to diversify its business, and a strong governance culture exists throughout the Group with the highest priority placed on understanding new regulations to assess their applicability and act accordingly, rather than treating regulation as a "box ticking exercise".

Conduct risk is mitigated by a rigorous employee vetting process; a culture of ethical and thoughtful behaviours throughout all of Winton's activities; ongoing compliance training and appropriate regulatory registrations; and compliance policies applicable to all employees.

Mis-selling and misrepresentation risk

This is the risk of Winton's employees mis-selling to, or misleading, an investor or prospective investor about the characteristics of a product or service and also includes the risk of being misrepresented by a third party distributor. Winton's vulnerability is centred on the material Winton provides for the promotion of the funds it advises or manages. Winton is not liable for the way in which third-party funds have been promoted beyond its provision of such materials. Mitigants include controls over the production, review and dissemination of marketing materials; clear policies on client interactions and meetings; and regular communication with investors.

Fraud risk

In a financial services business involving large sums of money, the risk of a fraud costing a few basis points of AUA but accounting to millions of pounds must be borne in mind. It is reduced in Winton's case by the fact that Winton does not actually hold any money for its clients. Nevertheless Winton advises on and initiates billions of dollars of transactions which must introduce risk. Another type of fraud risk relates to external counterparties; for example fraud committed by a third party service provider or counterparty in relation to assets held that belong to Winton or Winton's investors (e.g. custodians, clearing brokers).

Fraud risk is mitigated by: a robust control framework including daily reconciliations of holdings and valuations between Winton's records and those of the institutions holding the accounts; strict signatory controls and regular reconciliation procedures over Winton's own cash resources; appropriate segregation of duties; thorough review of contractual agreements by Winton's vendor management and legal teams; and ongoing third party oversight processes including regular due diligence visits.

Technology and cyber security risk

This is the risk relating to unauthorised use of Winton's IT systems, either maliciously or accidentally, by internal or external parties. This might result in the loss of Winton's ability to access markets, funds or information from third parties; personal customer or employee information; intellectual property; and ultimately a disruption of Winton's ability to operate. Risk mitigants include a dedicated information security team; user access controls; ongoing cyber security training for staff; and the enforcement of information security and acceptable use policies.

It also includes the risks relating to failure or loss of corporate or public IT infrastructure, such as the destruction of a data centre or communication links; destruction or inaccessibility of premises; or a cyber-attack. Risk mitigants include offices in multiple locations with ability to switch IT operations between them; and a disaster recovery plan which lays out the governance procedure to be pursued in the event of a serious threat to physical or virtual security.

Other risks

In addition, the Group has assessed the following risks:

- ***Exchange Rate Risk***: Winton faces the market risk from exchange rate fluctuations due to its management and performance fees being denominated in currencies other than sterling. Winton mitigates the risk from exchange rate fluctuations by monitoring foreign exchange exposure within the Group and changes in exchange rates regularly.

- ***Credit Risk:*** Winton is exposed to credit risk on receivables from third parties, relating to management and performance fees, and exposure to the financial institutions where Winton holds its assets on deposit. This risk is deemed to be immaterial.

- ***Seed Capital Risk:*** Winton has made limited investments in its own name in a number of the test strategies and may make a loss on its investments. The risk is mitigated by active monitoring of seed holdings.

Internal Control

The Board is responsible for the Group's internal controls and for reviewing their effectiveness. The Board carries out these responsibilities with the assistance of the Audit Committee and Chief Risk Officer. The Group also has an internal audit function, reporting to the Audit Committee.

External audits are conducted on the Firm annually. These audits include the statutory financial audit and the ISAE 3402 'Report on Controls'. The outcome of the reports to date supports the Firm's assertion that operational risks are adequately managed and mitigated.

Capital Requirements and Resources

The Group is headed by an unregulated UK domiciled parent company, Winton Group Limited ("WGL"). The ICAAP process is triggered by the existence of Winton Capital Management Limited ("WCM" or "the Firm"), an Alternative Investment Fund Manager ("AIFM") which is a Collective Portfolio Investment Management Firm ("CPMI firm") (i.e. has additional permissions to perform certain MiFID activities). The Group also includes the Firm's sister company, Winton Fund Management Limited ("WFM"), which is authorised as a full-scope AIFM and is a Collective Portfolio Management ("CPM") firm. WFM acted as the AIFM to certain Winton-titled AIFs with WCM acting as the delegate of WFM in respect of portfolio management. WFM ceased to act as AIFM from 1 July 2019 and arrangements will be underway to cancel its Part 4A permission. Consolidated regulatory capital reporting is undertaken and the ICAAP is prepared on a consolidated basis.
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<u>AIFMD</u>

As required by IPRU-INV 11 the Firm must hold own funds which equal or exceed the higher of:

1. The Funds Under Management Requirement (being the base own funds requirement of €125,000 plus 0.02% of the amount by which the value of the funds under management exceeds €250m); or
2. The Fixed Overhead Requirement (being one quarter of its annual fixed overheads amount).

The Firm maintains professional indemnity insurance that satisfies the requirements in IPRU-INV 11.3.15.

For the purposes of IPRU-INV 11.3, the amounts need to be held as liquid assets (assets which are readily convertible to cash within one month and have not been invested in speculative positions).

As at 30 June 2019 the Firm has concluded that its IPRU-INV capital requirement is £16.7m and there are sufficient liquid assets to cover this requirement.

BIPRU

The capital resources of the Firm and the Group comprise Tier 1 and Tier 2 capital after deducting material holdings. As a BIPRU firm, the capital resources requirement is calculated as the higher of the Pillar 1 and Pillar 2 capital resources requirements and the cost-to-close under a controlled wind down scenario.

Pillar 1 capital is the greatest of:
- The Base Requirement of €125,000;
- The Variable Capital Requirement ("VCR") being the sum of Credit and Market Risk Requirements; and
- The Fixed Overhead Requirement ("FOR").

The Pillar 2 capital requirement is calculated as part of the ICAAP as representing any additional capital to be maintained against any risk not adequately covered under Pillar 1. The Group does not distinguish between Firm and Group at Pillar 2 level as the Firm is a substantial operating entity within the Group.

The capital requirement may be the VCR in periods when management and performance fees are high, as most of the fees are received in USD and in this situation the Credit and Market Risk Requirements are high. In other periods, the Pillar 1 capital requirement normally consists of the FOR, although market and credit risks are reviewed monthly. The Firm applies a standardised approach to credit risk, applying risk weightings to the 8% credit risk requirement. The credit risk relates mainly to management and performance fees due but not paid.

The results of the most recent ICAAP approved by the Board in September 2019 show that the current level of capital is sufficient to cover the risks identified and monitored by the Group.

As at 30 June 2019, the Group's and the Firm's regulatory capital position under BIPRU was:

	WCM Firm only	***Consolidated Group***
Capital Items	***£000***	***£000***
Share capital	2,391	2,403
Share premium	9,816	2,355
Merger reserve	-	9,816
Other reserves	7,540	(9,793)
Audited reserves	105,127	220,487
Total Tier 1 Capital	**124,874**	**244,935**
Less Deductions (material holding)	-	(57,684)
Total Tier 1 Capital after deductions	**124,874**	**187,251**
Pillar 1 requirement	16,704	18,927
Pillar 2 requirement	15,250	15,250

Internal Capital Adequacy Assessment - Compliance with Pillar 2

The aim of the ICAAP is to ensure that the Firm at all times maintains financial resources at the Firm and consolidated level which are adequate, both in terms of the amount and quality, to ensure that there is no significant risk that it cannot meet its liabilities as they fall due. The ICAAP also includes a detailed analysis of the costs, risks and processes involved in winding-down the Group.

Responsibility for the review of the ICAAP sits with the Risk Committee. The ICAAP is used as a tool to inform the Board and other governing bodies, such as the Audit Committee, of the current assessment of the Firm's risks, how the Firm intends to mitigate those risks, and how much current and future capital it is necessary to hold, taking into consideration other mitigating factors.

The Firm has undertaken an assessment of the adequacy of its capital based on all risks to which the Firm is exposed. This was assessed in the Firm's ICAAP.

As part of the ICAAP, the Firm considered risks to capital combined with stress testing and scenario analysis of operational and business risks, as well as assessment of costs to wind down the business. The analysis concluded that the Firm has adequate capital to withstand unexpected losses arising from these risks.

FCA Remuneration Code Disclosures

The FCA implemented its Code on Remuneration ("the Code") with effect from 1 January 2011, as required by the Capital Requirements Directive and the Financial Services Act 2010. Under the Code, the Firm must report annually on the remuneration policy and practice for employees termed "Identified Staff". Identified Staff are defined as employees who perform a significant influence function, senior management and risk takers whose professional activities could have a material impact on a firm's risk profile. The Code requires that before 31 December 2019, firms disclose the remuneration of Identified Staff received in 2018.

Decision-making process for remuneration policy

The Firm was initially categorised as a Tier 4 firm for purposes of the Code. Under the FCA's "General guidance on proportionality: The Remuneration Code (SYSC 19B), the Firm has assessed the appropriate application of the Code's remuneration principles to its business and considers that the Firm falls within the application of the proportionality principle. The Group has a Remuneration Committee that meets regularly to consider the broad policy for the remuneration of the Group's executive directors, other Identified Staff and such other members of executive management as it is designated by the Board to consider. Within the authority delegated by the Board, the Remuneration Committee is responsible for determining the total individual remuneration package of such persons.

Role of the relevant stakeholders

The Remuneration Committee takes full account of the Group's strategic objectives in setting remuneration policy and is mindful of its duties to shareholders and other stakeholders. The committee seeks to preserve shareholder value by ensuring the successful retention, recruitment, and motivation of senior employees.

Identified Staff criteria

Identified Staff are defined with reference to managerial responsibility to influence the Firm's overall risk profile. The Firm's Identified Staff comprise the Group's executive directors and certain other individuals whose actions have a material impact on the risk profile of the Firm. All Identified Staff are members of senior management.

The link between pay and performance for Identified Staff

Remuneration is made up of fixed pay (i.e. salary and benefits) and performance-related pay. Performance-related pay is designed to reflect success or failure against an employee's objectives as well as reflecting the performance of the employee's department and the Firm as a whole. A proportion of the performance–related pay for Identified Staff is deferred and amounts are payable over pre-defined periods contingent on the Firm's performance and the employee remaining with the Firm for the period.

Aggregate Remuneration of Identified Staff

The Firm has one business area and the aggregate remuneration of Identified Staff at the period ended 30 June 2019 was £11.0 million.