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INVESTMENT ADVISORY SERVICES

Los Angeles • New York

**Hedge Fund Investment Due Diligence Report  
Winton Futures Fund**

**July 2011**

*Operations Due Diligence Report provided under separate cover.*

## Hedge Fund Investment Due Diligence Report

<b>Firm Name:</b>	Winton Capital Management		
<b>Fund Name:</b>	Winton Futures Fund ("WFF")		
<b>Fund/Strategy Assets:</b>	\$22.1 billion		
<b>Style:</b>	Global Macro/CTA	<b>Location:</b>	London, U.K.
<b>Review Date:</b>	July 2011	<b>Reviewer:</b>	[REDACTED]

### Summary

*People and Organization:* Winton Capital Management ("Winton" or "the firm") was founded in 1997 and is run by David Harding, one of the pioneers in the CTA space. Winton currently manages \$22.7 billion in assets, including \$22.1 billion in total managed futures program assets. The firm is principally located in London, with additional offices in Oxford and Hong Kong. Winton is registered with the FSA in the UK and as a CTA and Commodity Pool Operator with the CFTC and is a member of the National Futures Association in the US.

*Investment Strategy and Process:* WFF is a systematic CTA trading over 120 liquid global futures markets across equities, fixed income, currencies, energies and commodities. The fund's strategy is dictated by a highly sophisticated algorithm that is continuously executed throughout each trading day. The strategy is fully systematic and trades are executed with the sole purpose of tracking the model. Winton's approach is primarily directional, with systems sampling thousands of prices daily to identify and profit from momentum opportunities across a broad range of sectors. Trend following is at the core of Winton programs, but the fund is continually focusing on research into non-price factors to diversify returns. The fund is currently allocated approximately 70% to trend following and 30% to non-price driven, fundamental factors.

*Performance:* WFF has a long performance history extending almost 14 years. The fund's annualized return of 11.43% over the last 5 years exceeds the HFRI Fund Weighted Composite Index and the HFRI Macro (Total) Index, ranking in the top 22<sup>nd</sup> percentile of all hedge funds. The fund's Sharpe ratio of 0.85 over the last five years places it in the top 19<sup>th</sup> percentile of all hedge funds. Usually I mention the annualized return, risk and Sharpe since inception and leave out the rankings.

*Risk Management:* The risk management process is systematized within the fund's model. In contrast to many trend-following CTAs, WFF does not use stop losses to manage risk. The fund aims to mitigate risk by dynamically sizing positions based on signal strength, volatility, and liquidity and by diversifying risk across a large number of market and models. The firm has a dedicated risk management team that measures and monitors portfolio risk.

*Operational Analysis:* Winton's team of operations professionals has built institutional quality processes and controls. Given the firm's high trade volume and algorithmic trading strategy, the firm has made a substantial investment in building out highly automated trading systems. Approximately 88% of all trades are executed without any manual intervention. No material departures from best practices were identified in the operations due diligence.

*Investment Terms:* Winton's fees are lower than other CTAs and the liquidity terms are investor friendly. Winton charges a 1% management fee and 20% performance fee, which is lower than the typical 2% and 20%. The liquidity terms permit monthly liquidity with no lock up and no gate. Winton has agreed to waive all subscription and early redemption fees for Cliffwater clients, which brings the liquidity terms in-line with peers.

### Recommendation

Winton Futures Fund is recommended for investment in the Global Macro category.

This report reflects information only through the date hereof. Our due diligence and reporting rely upon the accuracy and completeness of financial information (which may or may not be audited by the fund manager) and other information publicly available or provided to us by the fund manager, its professional staff, and through other references we have contacted. We have not conducted an independent verification of the information provided other than as described in this report. Our conclusions do not reflect an audit of the investment nor should they be construed as providing legal advice. Past performance does not guarantee future performance. The information contained herein is confidential commercial or financial information, the disclosure of which would cause substantial competitive harm to you, Cliffwater LLC, or the person or entity from whom the information was obtained, and may be protected from disclosure by applicable law.

## People and Organization

Winton Capital Management (“Winton” or the “firm”) was established in 1997 by David Harding, a pioneer in the managed futures space and one of the three founders of AHL, another well respected London-based CTA. After Man Plc acquired AHL, Mr. Harding decided to leave the firm he co-founded and started his own CTA. Mr. Harding founded Winton with Martin Hunt and Osman Murgian, an early investor in AHL. Winton currently manages \$22.7 billion in assets, including \$22.1 billion in total managed futures program assets, which is comprised of \$7.8 billion in the Winton Futures Fund (“WFF” or “the fund”) and \$14.3 billion in managed accounts. The fund is a systematic CTA trading over 120 global futures markets across all asset classes including equities, fixed income, currencies, energies, and commodities. Winton is registered with the FSA in the UK and the fund is traded on the Irish Stock Exchange. Winton is registered as a Commodity Trading advisor (“CTA”) and Commodity Pool Operator (“CPO”) with the CFTC and is a member of the National Futures Association (“NFA”) in the US.

Winton’s Trading System Committee oversees research strategy and is specifically responsible for reviewing research projects, approving additions and changes to the system and all general issues regarding research. The committee meets at least once a month and its membership is comprised of Mr. Harding, Matthew Beddall (CIO), the head of trading, the head of high frequency research, Raj Patel (COO), Nicola Malhotra (head of risk management), and [REDACTED]. The firm also has a management board tasked with reviewing all aspects of firm strategy and approving financial and regulatory reports. The board consists of Mr. Harding, Anthony Daniell (CEO), Mr. Beddall, Mr. Patel, Andrew Bastow (general counsel and director of government and regulatory affairs), Martin Hunt (non-executive director), and Amal Murgian (non-executive director).

Mr. Harding is the firm’s founder, chairman, and head of research. He provides strategic direction for the firm and is ultimately responsible for all research and risk management functions of the business. Mr. Beddall is Winton’s CIO and is responsible for executing Mr. Harding’s plan regarding the firm’s research function. He ensures the system is working, determines how to improve the system on an ongoing basis, provides guidance to the research team and ensures that research is being conducted efficiently and effectively. Mr. Beddall joined Winton in 2001 as a researcher after his graduation from Southampton University with a degree in mathematics and computer science. He has since been extensively involved in all aspects of the research process and has led the development of much of the software that underlies the Winton trading strategy.

WFF launched in 1997. Assets have grown substantially since inception and, as of June 2011, total fund assets stood at \$7.8 billion and total firm assets stood at \$22.7 billion. The fund has no plans to close to new investments but is carefully monitoring capacity and will close if it is determined that performance would be adversely affected by additional assets under management. Winton has dedicated research initiatives focused on studying liquidity and capacity across global futures markets. Similar to other large London-based CTAs, since its inception, Winton has had a large concentration of investments from European private clients and retail distribution channels. Winton is continuing to make a concerted effort to expand its investor base into the U.S. institutional market. Winton’s current investor base is [REDACTED] distributors, [REDACTED] pensions, [REDACTED] funds of funds, [REDACTED] foundations and endowments, [REDACTED] governments/public funds [REDACTED] insurance companies and [REDACTED] other, which includes Winton staff and high net worth individuals. Six principals of the firm have approximately [REDACTED] million invested in Winton’s funds.

Winton is owned by a number of different parties. Mr. Harding has a [REDACTED] ownership stake, Mr. Murgian holds [REDACTED] employees own [REDACTED] and [REDACTED] holds approximately [REDACTED]. In [REDACTED] [REDACTED] acquired a [REDACTED] stake in Winton Capital Management. The piece was originally acquired by [REDACTED] but was shortly [REDACTED] a [REDACTED] ownership is [REDACTED] and cannot be transferred or sold without Winton’s prior approval.

While managed futures are Winton's flagship business, the firm manages three types of investment programs. First, the managed futures program, which accounts for the vast majority of assets in the firm, includes WFF and managed accounts. The only differences between the managed accounts and the fund are related to exclusions of certain markets required by the holders of the managed accounts. Second, the firm manages two funds within its equity program, the Winton Global Equity Fund which is a long-only, systematic equity fund and the Winton Octo Program which is a high frequency statistical arbitrage fund. Third, the firm manages the Winton Evolution Fund, which allocates money to the WFF, Octo, and Global Equity funds, with additional capital deployed to trading systems which are too capacity constrained to be included in WFF. A history of Winton's assets under management can be found in Exhibit 1 below.

Exhibit 1: Assets Under Management (\$ millions)

<u>Year End</u>	<u>Winton Capital Management Total</u>	<u>Winton Managed Accounts Total</u>	<u>Winton Futures Fund Total</u>	<u>Winton Evolution Fund Total</u>	<u>Equity Program Total</u>
1997	\$2		\$2		
1998	\$15	\$5	\$10		
1999	\$110	\$90	\$20		
2000	\$150	\$130	\$20		
2001	\$275	\$245	\$30		
2002	\$200	\$180	\$20		
2003	\$325	\$285	\$40		
2004	\$1,500	\$1,045	\$455		
2005	\$4,000	\$2,050	\$1,750	\$20	
2006	\$7,400	\$3,970	\$3,000	\$430	
2007	\$11,300	\$5,880	\$5,000	\$420	
2008	\$13,300	\$7,700	\$5,500	\$100	\$15
2009	\$12,500	\$8,120	\$4,250	\$100	\$27
2010	\$17,200	\$11,180	\$5,840	\$117	\$211
2011 (June)	\$22,695	\$14,300	\$7,800	\$112	\$483

Winton is principally located in London. In addition, Winton has offices in Oxford and Hong Kong. Winton employs 211 employees, 138 of which are located in London (in Kensington and Hammersmith), 64 in Oxford, and 9 in Hong Kong. There are 114 investment professionals, including the CIO and members of the research, trading and risk management teams. On the back-office side, there are 20 people in operations, 6 in finance, 6 in legal and compliance, 18 in information technology, and 20 in HR and office support. The firm is supported by a 24 person investor relations and marketing team.

Exhibit 2 provides additional biographical information on the key investment and operations professionals at Winton. Exhibit 3 provides a breakdown of fund employees by functional area.

## Exhibit 2: Key Investment and Operations Professionals

<u>Name</u>	<u>Title</u>	<u>Years at Firm</u> Incep.	<u>Years Exp.</u>	<u>Prior Experience/ Education</u>
David Harding	Founder, Chairman, and Head of Research		29	AHL; Brockham Securities; Sabre Fund Management; Wood MacKenzie/ Cambridge University BA
Matthew Beddall*	Chief Investment Officer	8	8	Birbeck College (University of London) MSc; Southampton University BA and MA
David Hand	Chief Scientific Advisor	2	2	Professor at Imperial College London; President of the Royal Statistical Society/University of Southampton PhD; University of Oxford BA
██████████	Deputy Chief Investment Officer	7	7	University College London MSc; Imperial College BA
██████	Head of High Frequency Research	5	15	JP Morgan; RBS/ Oxford University PhD; Harvard University MA
██████████	Head of Cash Equity Research	5	21	International Monetary Fund; SG Warburg/Oxford University PhD
Andrew Moss	Head of Trading	6	14	First Continental; J Henry Schroder/Exeter University BA
Nicola Malhotra	Chief Risk Officer	4	14	ICAP; LCH Clearnet Ltd./Birbeck College (University of London) BSc
Anthony Daniell	CEO	7	28	UBS Warburg; Rowe and Pitman/ Bristol University BA
Raj Patel	COO	Incep.	14	Trinity and All Saints College BA

\* Matthew Beddall is David Harding's nephew

## Exhibit 3: Personnel Count

	<u>Total Firm</u>	<u>Total Firm Departures within past 3 years</u>
<b>Investment Professionals:</b>		
CIO and directors	7	1
Traders	11	2
Research Analysts	92	52
Risk Management	7	0
<b>Operations/Back Office:</b>		
Operations	20	3
Finance	6	2
Legal/Compliance	6	0
Information Technology	18	1
HR/Office Support	20	8
Marketing/Investor Relations	24	7

Winton is authorized and regulated by the Financial Services Authority in the UK and is registered as a Commodity Trading Advisor and Commodity Pool Operator with the CFTC and is a member of the National Futures Association in the US. The WFF was incorporated under the laws of the British Virgin Islands on June 30, 1997 as an open-ended investment company with limited liability. The fund is a corporate equity member of the CME Group and as such holds shares in the CME Group and

membership seats in respect of the CME Group exchanges in order to maintain this category of membership. The fund is listed on the Irish Stock Exchange.

The firm is dedicated to scientific research, with a 92 person research team comprised of individuals with PhDs and other advanced science-oriented degrees. Almost 50% of Winton staff members are dedicated to research. The research effort is led by David Harding. Winton places a high degree of importance on research and hires applied scientists focused on identifying relationships in market data. Winton has invested heavily in proprietary technology, including a custom trading platform, risk management system, and a largely automated back office. In 2005, Winton set up a research “campus” at the Oxford Science Park to further its mission of long term scientific research and in July 2007 opened a second research campus in Hammersmith. In November 2008 Winton opened its first overseas office in Hong Kong.

In 2011, Winton restructured the research team into three groups: futures (all sectors), cash equities, and high frequency trading. The futures group is effectively headed by Mr. Beddall, while [REDACTED] serves as head of high frequency research and [REDACTED] serves as head of cash equity research. Previously, the research team was organized around the four major asset classes (equities, fixed income, currencies, and commodities). Management observed that research across asset classes yielded better results than the previous siloed approach. As a result of the restructuring, [REDACTED] (previously head of commodities research) and [REDACTED] (head of fixed income research) were let go in early 2011.

The firm has experienced a few senior departures. Martin Hunt, former director of finance and operations, stepped down from his role to become a non-executive director in October 2010. Over the course of his last 2 years as an executive director, Mr. Hunt gradually delegated his responsibilities to Mr. Daniell and Andrew Barstow (general counsel and director of government and regulatory affairs). When Mr. Hunt officially stepped down, Mr. Daniell was given the title of CEO. In September 2010, Peter Jauhal (director of strategy) left the firm to pursue other opportunities. Mr. Jauhal focused on matters of business strategy, but was not involved with the research effort. In 2008 the former head of research, [REDACTED], departed the firm to return to his native Morocco and has not been involved in the financial industry since leaving Winton. [REDACTED] was promoted to head of research after his predecessor, Brian Draper, passed away unexpectedly. Upon [REDACTED] departure, Mr. Harding decided to reorganize the research group, appointing himself as head of research and promoting Mr. Beddall to CIO. Messrs. Harding and Beddall have since overhauled the firm’s recruiting strategy, choosing to hire from a more experienced pool of research talent. As an example of this effort, in January 2010 the firm recruited David Hand, a highly respected statistician and member of the academic community in London, to serve as chief scientific advisor. In this role, Mr. Hand not only serves an important role on the research team but also plays a key role in the recruiting process.

Turnover over the last few years has averaged about 12% per year. Turnover has been higher than average over the last several years as the firm has continued to raise its standards for researchers and has let go of a number of researchers who did not agree with following the Winton research process. As the firm has worked to significantly expand its research team, turnover has naturally resulted, as it can take up to two years to evaluate the quality of a researcher’s output,

Mr. Beddall has worked to create a research culture that is more open and collaborative and has also made changes to the compensation scheme to ensure that the firm more effectively aligns the interests of its researchers. The staff compensation model is [REDACTED]

[REDACTED]

## Investment Strategy and Process

WFF is a diversified CTA, trading over 120 liquid global futures markets, using a mix of trend following and non-price driven strategies in an attempt to exploit inefficiencies caused by market behavior. The fund trades equities, fixed income, currencies, energies and commodities globally. The fund's strategy is dictated by a highly sophisticated algorithm that is executed throughout each trading day. The strategy is fully systematic and trades are executed with the sole purpose of tracking the model. As discussed in the section on risk management below, however, the manager may intervene to reduce risk in reaction to extreme market events. WFF's average holding period of 4 months is one of the longest holding periods in the trend following universe.

The founding principle and philosophy of Winton is the belief that robust statistical and mathematical research provides the richest and most reliable source of information on market behavior. WFF's approach is primarily directional, with systems sampling thousands of prices daily to identify and profit from momentum opportunities across a broad range of sectors. Mr. Harding has spent over 25 years leading research into market behavior and has built an investment process that seeks to identify trends and patterns. Winton attempts to capture information that is systematically exploitable and trades based on the trends. The fund aims to isolate and exploit factors that are scalable, robust and persistent. WFF's core trend following strategy is best suited to take advantage of sustained price trends with low volatility. Range-bound prices and short-term reversals have historically tended to have a negative impact on the trend following portion of the portfolio.

The firm allocates researchers to three different types of research projects: new markets/efficiency improvements, enhancements to data processing and analysis, and new breakthroughs. Examples of recent projects include algorithmic execution research, high frequency data, data acquisition and management, research simulation software, and capacity research. The trade execution team, led by Andrew Moss, focuses on execution research, technology and trading.

The identification of new trading models and enhancements to existing ones are key to the firm's ability to maintain performance over the long-term. The research agenda is managed by Messrs. Harding and Beddall. Research at Winton follows a multi-step, systematic process, the first stage of which is the collection and cleaning of data. Researchers then scientifically analyze long periods of historical data to identify patterns and trends in market behavior. Sources of data include technical inputs like price and volume and fundamental information such as manufacturing data and the shape of the yield curve. New models must not be significantly correlated to existing systems. After initial testing, researchers must compile a one page summary of their thesis to be submitted to the Trading System Committee for peer review. If the committee determines that additional research is needed, additional resources may be assigned to the project to help resolve key unanswered questions. If the Trading System Committee cannot unanimously agree on a research proposal, it will not be implemented into the trading system. Research projects that pass the initial Trading System Committee review process are assigned to an independent group of peer reviewers. Assuming the model is approved, it will be subjected to stress testing and other quantitative analysis for a period up to 12 months. If a model successfully passes the stress testing, it will initially enter the portfolio with a very small risk allocation to ensure that the model performs as expected during "live" trading. Eventually, the model's allocation will be permitted to grow as large as dictated by performance results and various portfolio constraints. Every two years, each system is completely deconstructed to verify that the original assumptions still hold true. More often than not, this system leads to improvements but the risk allocated to a system may be reduced to zero if warranted. Material changes require the approval of both the Trading System Committee.

The output of all of the programs developed by Winton's research team is a proprietary, computer-based trading system. The system relates the probability of the size and direction of future price movements with indicators derived from past price movements to produce algorithms that characterize the degree of trending of each market at any point in time. A portfolio is then designed to produce the highest level of return at the targeted level of risk. Trading is program driven, with positions established and rebalanced daily in accordance with the trading system's daily assessment of optimal portfolio weightings. Allocation across the different asset classes is completely systematic and dictated by the program. Mean variance

optimization techniques employ covariance forecasts to construct an efficient portfolio, subject to sector and market weightings. The goal is to limit the trend following system to smaller losses during the markets' inevitable whipsaw periods and to take better advantage of significant trends when they occur.

Each position is allocated a small proportion of risk capital to enhance diversification. The trading system adjusts position sizes based upon the strength of signals: consequently the stronger the signal, the greater the size of the position. Additionally, positions are sized inversely to volatility in each market. Winton is careful to ensure position sizes do not affect liquidity and utilizes advanced trading algorithms to break up trades, minimizing the system's footprint in the market. The system enforces adherence to limits on open position size, outright quantity, and the size of lots executed.

WFF aims to limit the loss from any single position and achieve its risk target through diversification across a number of markets, timeframes, and models. Through its research initiatives, Winton constantly looks for new opportunities to add eligible markets to the portfolio, thus further increasing the portfolio's diversification. While trend following strategies are the core of WFF, additional diversification has been achieved by incorporating non-directional models which derive their forecasts from factors excluded by technical analysis. In these systems the primary input is likely to be an economic variable such as the shape of the yield curve, rather than market price or volume. These models work in the same way as those based on technical analysis, except that they use a different set of forecasting variables. Another area of diversification, trading in cash equities, has recently been added to WFF. The main component of the strategy is designed to exploit differences in volatility between market-cap weighted stock indices and a basket of the underlying stocks, which are equally risk-weighted by a proprietary algorithm. Another area of recent research is high frequency trading. Although WFF will always remain a longer-term trend following strategy at the core, research into high frequency trading has led to a very small allocation to a model with an intraday holding period. While the allocations can change monthly, as of June 30, 2011, risk in WFF is allocated approximately 70% to trend following and 30% to non-trend following models. It is reasonable to expect that non-trend following strategies may become an increasingly significant portion of the portfolio, as the main focus of the research staff is on developing new non-trend following models in order to increase diversification.



## Portfolio Characteristics

The instruments used by WFF are futures, forwards, options, cash equities, and contracts for difference (“CFDs”). Currently, the portfolio consists of 96% exchange traded futures, 1% exchange traded forwards, 1% OTC FX forwards, 1% cash equities, and 1% CFDs. Futures are generally used for currency positions, but OTC forwards may be used for certain FX crosses where pricing is better. The fund trades in cash equities for the purposes of creating sector baskets where there is no comparable index to trade and also to implement the volatility component of the cash equities strategy. WFF trades only highly liquid instruments and under normal market conditions, the firm estimates that it would take between [REDACTED] days to liquidate the entire portfolio without having a major impact on pricing. Winton monitors liquidity as part of its daily risk management process. This is done by measuring and analyzing slippage costs and tracking trading volumes and market open interest. Changes in a market’s liquidity and access costs will impact how it is allocated to and traded by Winton’s programs. Winton may react to sudden and unexpected illiquidity by reducing exposure to the illiquid markets or by exiting from those markets if necessary.

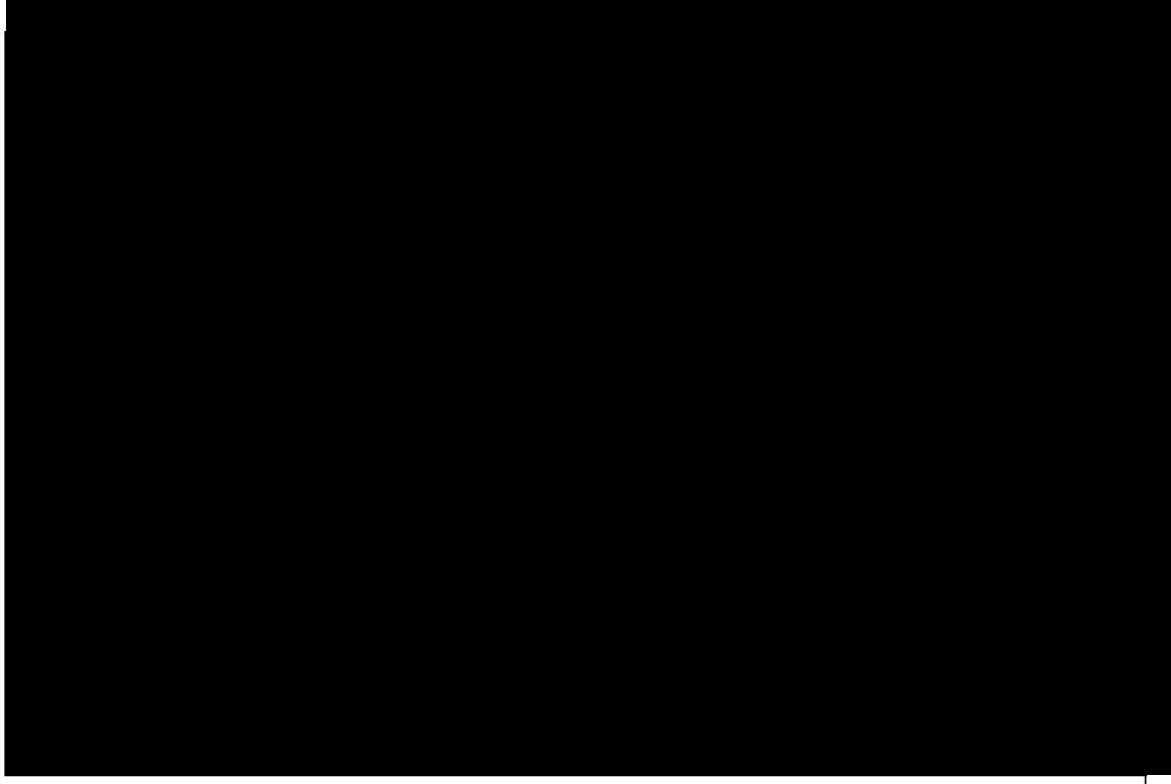
The fund invests in all regions around the world. As of June 30, 2011, risk is allocated as follows: 37% North America, 28% Europe, 27% Asia, and 8% emerging markets. WFF’s portfolio is primarily in developed markets because of the superior liquidity there. Unencumbered cash typically ranges from 90% to 95% of the portfolio. No more than 10% of the fund’s assets will be posted as margin in any single market. No more than 50% of the fund’s assets will be posted as margin for the portfolio.

The fund trades across over 120 markets. The average round-turns traded per \$1 million per year has been approximately 500 over the last 5 years. The average holding period is approximately 4 months, but models have time horizons ranging from intraday to 6 months. Trade execution is largely automated. 96% of trades are executed electronically and 88% are traded algorithmically; 5% of trades are executed by traders either directly with counterparties or relayed via a broking desk to the exchange floor. The trading desk has 24 hour coverage with an 11 person team of execution traders and trading technology staff. The execution team constantly supervises the execution process to ensure that it is working correctly and will step in and override the system to execute a trade if they feel it is not being executed in the most efficient way possible. In addition to efficient trade execution, cost minimization is an important focus point for the fund. Transaction costs are taken into account as part of the portfolio construction process; longer term signals are emphasized for markets with higher transaction costs.

Risk capital is allocated across nine sectors. Short-term risk allocation varies as positions continuously adapt to reflect the current opportunities in the markets. The current long term risk targets are: currencies 20%, equities 20%, bonds 19%, energies 10%, precious metals 10%, interest rates 7%, base metals 7% crops 6%, and livestock 1%. Allocations have varied significantly over time, but major deviation from these weightings would lead to a recalibration of market weights to keep the sector weights in line. While the formal review occurs monthly, the actual level of risk at the sector level is monitored on an ongoing basis.

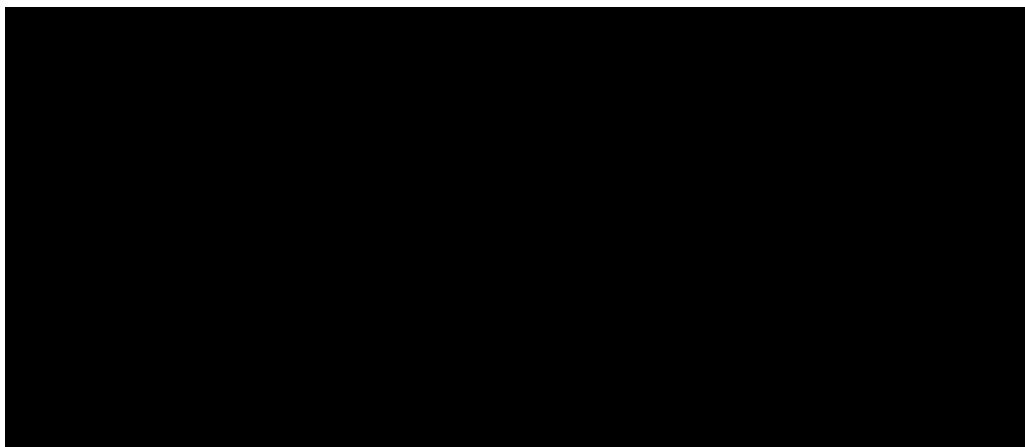
The current breakdown by asset class is as follows: interest rates 10.4%, precious metals 6.6%, livestock, 0.5%, equity indices 22.6%, cash equities 4.7%, energies 6.3%, currencies 22%, crops 6.7%, bonds 17.5%, and base metals 2.7%. Historical risk allocations are illustrated in Exhibit 4. Please note these allocations are a snapshot as of each month end and could vary significantly intra-month.

Exhibit 4: Historical Sector Allocation



Rather than targeting returns, WFF targets risk; the fund's long-term annualized volatility target is currently 10%. Winton views leverage, as measured by margin-to-equity, as the primary determinant of the fund's realized volatility. In order to limit short-term fluctuations around the targeted volatility, leverage is adjusted on a daily basis. Current margin-to-equity is 7.3% and over the past 4 years, the fund's margin-to-equity has ranged from 3.6% to 10.7%. Winton also tracks gross leverage, which is calculated by Winton as total gross notional exposure divided by equity. The gross leverage range of WFF is typically 200% to 400% and has ranged from under 100% to over 800%. This level of leverage is in line with other global macro funds and CTAs. As of June 30, 2011, gross notional leverage for the fund was 296%. Exhibit 5 charts the fund's historical gross notional leverage for the period July 2008 through June 2011.

Exhibit 5: Historical Gross Notional Leverage



— Gross Leverage

## Performance

Exhibit 6 provides a performance analysis on WFF, including index and peer comparisons.

### *Return*

WFF has a long performance history extending almost 14 years. The fund's annualized return of 11.43% over the last 5 years significantly exceeds the 4.79% return of the HFRI Fund Weighted Composite Index and the 5.95% annualized return of the HFRI Macro (Total) Index. This performance places WFF in the top 22<sup>nd</sup> percentile of all hedge funds and the top 25<sup>th</sup> percentile of global macro hedge funds.

### *Risk*

The fund's annualized standard deviation of 10.59% over the last 5 years is lower than the 12.25% median standard deviation of the HFRI Fund Weighted Composite Index and the 13.42% standard deviation of the HFRI Macro (Total) Index, placing the fund in the 36<sup>th</sup> percentile of all hedge fund and the 31<sup>st</sup> percentile of global macro hedge funds. Note that previously the fund had a higher risk target. Since adopting the current annual risk target of 10%, the funds realized volatility has been in line with the target.

### *Risk-Adjusted Return*

WFF has produced a Sharpe ratio of 0.85 over the last five years. This performance places the fund in the top 19<sup>th</sup> percentile of all hedge funds and the top 15<sup>th</sup> percentile of all global macro hedge funds.

### *Risk Characteristics*

As shown in Exhibit 7, the fund's return stream has shown no statistically significant beta to equity markets over the past 5 years. The fund's  $R^2$  of 0.01 to the HFRI Fund Weighted Composite Index shows that WFF has not been correlated to the broader hedge fund universe, The fund's  $R^2$  of 0.46 to the HFRI Macro (Total) Index indicates moderate correlation to other global macro hedge funds.

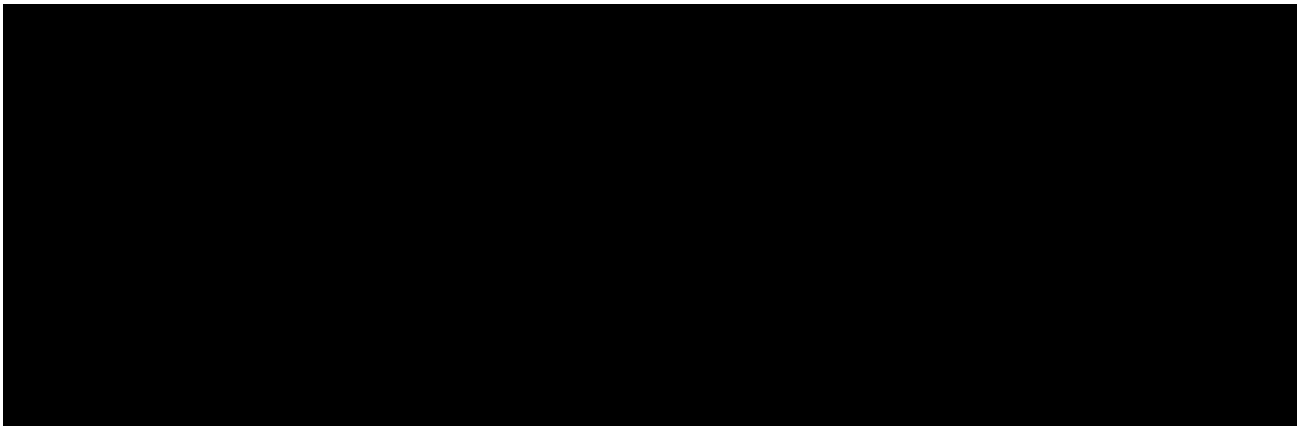
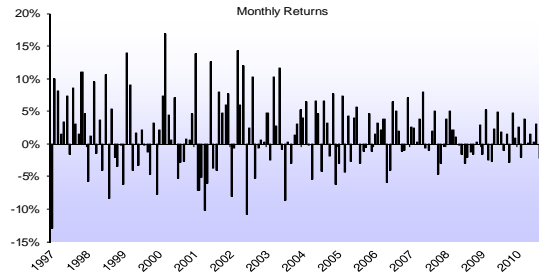
### *Other*

CTAs have typically performed well during times of stress for equity markets; this characteristic is true for WFF as well as highlighted by the fund's 21.01% return in 2008. The fund was down in 2009 when the broader hedge fund universe performed well; the majority of CTAs also had negative performance in 2009 due to conditions that were difficult for trend following strategies.

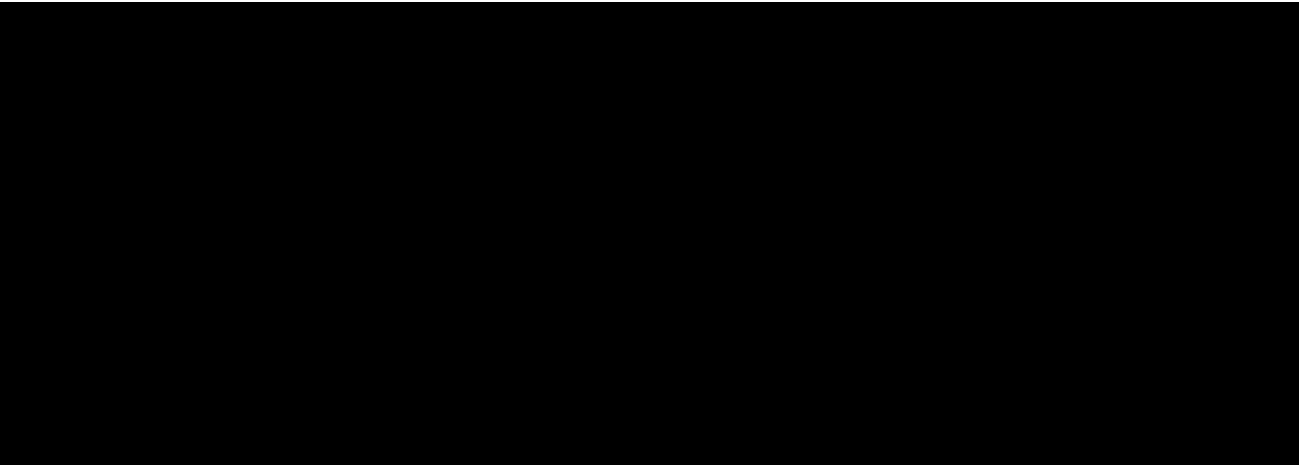
Exhibit 6: Performance



Fund Return	1-Year	3-Years	5-Years	Inception
Winton Futures Fund				
S&P 500 TR				
Barclays Aggregate Bond Index				
3 Month Libor Rate				

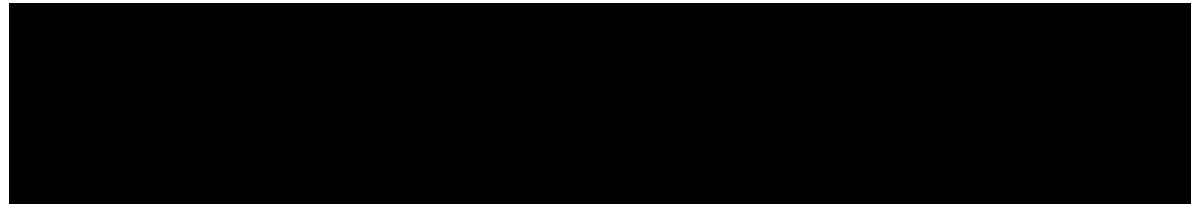
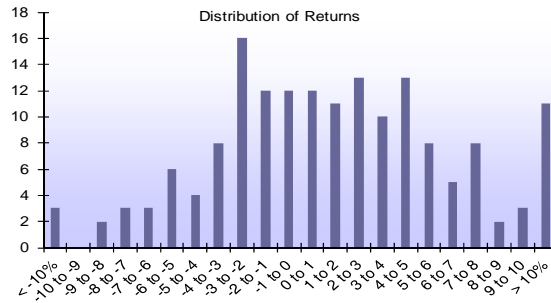
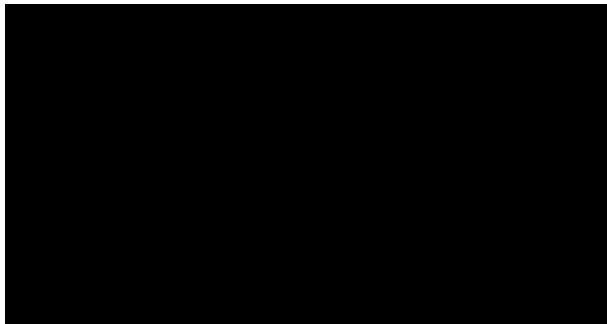
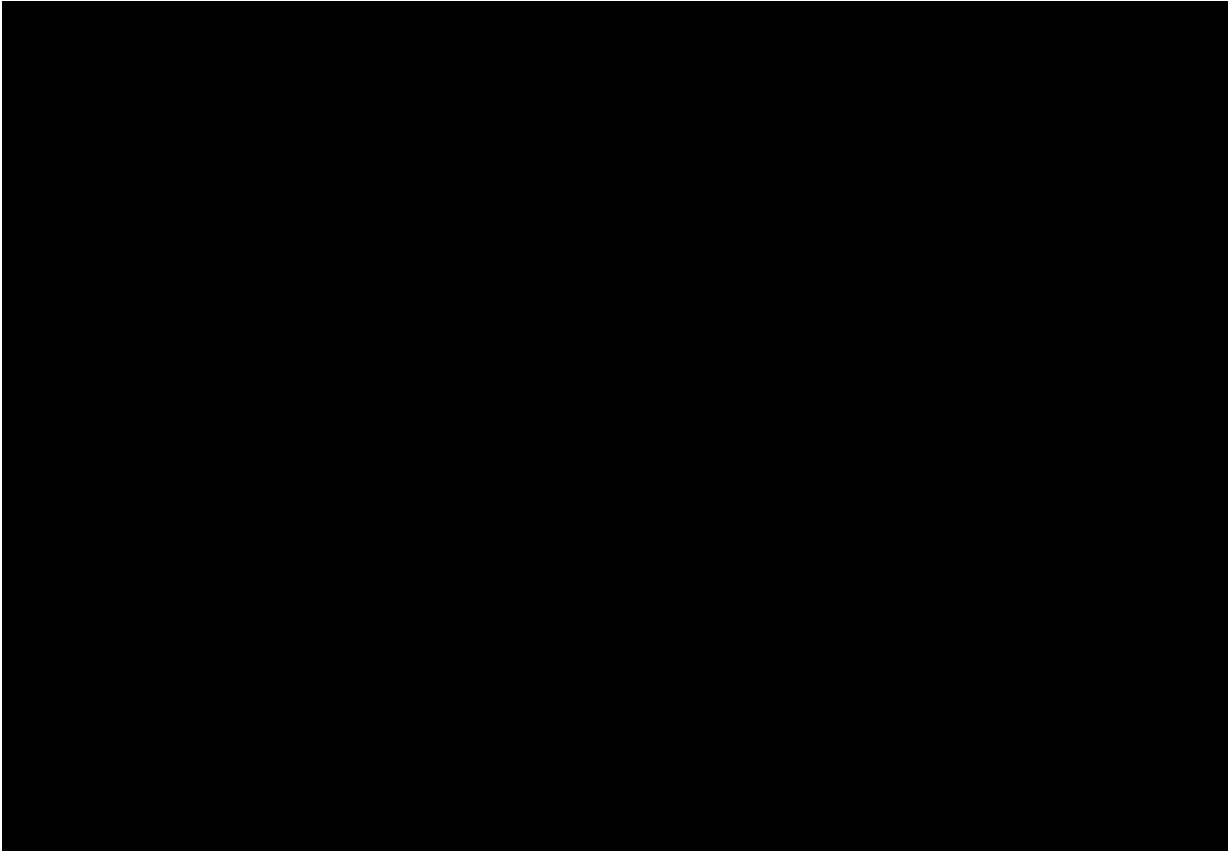


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	HFR FW
2011	0.08%	1.51%	0.25%	3.00%	-2.16%	-2.50%							0.07%	0.77%
2010	-2.60%	2.33%	4.91%	1.75%	-1.01%	1.47%	-2.78%	4.78%	0.94%	2.51%	-2.01%	3.75%	14.52%	10.25%
2009	0.99%	-0.21%	-1.64%	-3.01%	-2.03%	-1.26%	-1.52%	0.32%	2.85%	-1.59%	5.12%	-2.45%	-4.64%	19.98%
2008	3.85%	7.95%	-0.66%	-0.99%	1.99%	5.06%	-4.63%	-3.00%	-0.41%	3.73%	4.97%	2.10%	21.01%	-19.03%
2007	3.86%	-5.93%	-3.95%	6.46%	5.05%	1.91%	-1.18%	-0.88%	6.98%	2.52%	2.42%	0.24%	17.96%	9.96%
2006	4.20%	-2.58%	4.01%	5.66%	-2.94%	-1.17%	-0.47%	4.54%	-1.10%	1.48%	3.24%	2.14%	17.84%	12.89%



Hedge Fund Research, Inc. ("HFR") is the source and owner of the HFR data contained or reflected in this report and all trademarks related thereto. This report relies upon the accuracy and completeness of financial information obtained through the fund manager, which may or may not be audited by that fund manager. We have not conducted an independent verification or an audit of such information. Past performance does not guarantee future performance. The information contained herein is confidential financial information, which should not be disclosed to third parties except as required by applicable law.

Exhibit 7: Risk Characteristics



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## Risk Management

Winton's risk management process is systematized within the fund's model. A multi-tiered risk management system is integrated into the investment process. Diversification is a key element of the strategy, which allocates a small amount of risk across many markets, positions, models, and time-frames. In contrast to many trend-following CTAs, WFF does not use stop losses to manage risk. The strategy attempts to mitigate the impact of trend reversals by dynamically sizing positions based on signal strength, volatility, and liquidity. A proprietary risk forecasting system, operating at the individual market level, serves as a key input to positioning and re-forecasts risk in each market on a daily basis. Position sizes are also constrained by sector and market weights within the models. In order to achieve the risk target of 10%, the correlation between different markets is estimated and factored into the calculation of overall portfolio leverage; the level of leverage is reset on a daily basis. The trading system aims to anticipate periods of relatively high or low risk and will either reduce or increase leverage systematically. The Trading System Committee also has discretion to change the risk target. As of July 2011, the risk target was temporarily lowered in reaction to extreme market behavior.

Winton has a dedicated risk monitoring function led by Nicola Malhotra, chief risk officer ("CRO"), who reports directly to Mr. Harding. The responsibilities of the CRO include the authorization of risk limits, monitoring of the portfolio against risk limits and key risk measures, counterparty risk analysis, and development of Winton's risk policy processes and controls. At Winton, like many other managed futures funds, the position of CRO is not a traditional, discretionary risk management role. Because risk management has always been integral to the design of the model itself, risk management at Winton consists primarily of monitoring risk measures and ensuring the systems remain within prescribed limits. Mr. Harding and Ms. Malhotra together comprise the risk management committee, and are responsible for assessing all risks facing the firm, including operational, counterparty, trading and general business risks. The risk group is currently comprised of seven full-time staff.

In the event that exceptional market conditions arise, such as the closure of an exchange or suspension of trading in a contract, the Trading System Committee may decide to exercise discretion over the trading system. Any discretionary decision would normally be taken only to reduce risk and would be temporary in nature. Examples of potential discretionary actions include decreasing leverage, liquidating all positions in certain markets, or overriding an order generated by the trading system. Orders are generated by the model with reference to pre-trade risk limits. These limits prevent an order from being executed if the execution of that order would result in the breach of a risk limit. Responsibility for setting these limits resides with the CIO and authorization of these limits lies with the CRO.

The risk team uses a proprietary tool called Risk Manager to measure and monitor risk across all aspects of the portfolio through various risk metrics including margin-to-equity, notional leverage, VaR, position and trading volumes vs. exchange open interest and volumes, position concentrations, and P&L. Limits for these metrics are established by the CRO in conjunction with the CIO. VaR is assessed on a one-day basis at both 95% and 99% confidence intervals. In addition, Winton employs a historical stress testing model which looks back over a period of approximately 25 years to generate the profits and losses that would have been generated on each of those days, based on the current portfolio of positions.

Key risk measures are reported to management via an extensive suite of reports published on Winton's intranet. Specific access to the information reported on the intranet varies by individual person and is dependent on each employee's role and responsibilities within Winton. Each day, a daily notification report is generated, reviewed, and distributed to management of the firm. This daily notification report details the key risk measures for the fund, together with any metric that has reached 85% of its limit or above.

## Investment Terms

### Summary Comments

WFFs fees are lower than other CTAs and the liquidity terms are investor friendly. Winton charges a 1% management fee and 20% performance fee, which is lower than the typical 2% and 20%. The liquidity terms permit monthly liquidity with no lock up and no gate. Winton has agreed to waive all subscription and early redemption fees for Cliffwater clients, which brings the liquidity terms in-line with peers. There is no onshore version of the fund.

### Terms

<b>Fees and expenses</b>	
Management fee	1%
Performance fee	20%
High water mark	Yes
Hurdle rate	No
Fee payment frequency	Monthly management fees, quarterly (but accrued monthly) performance fees
Fund expenses	14bps
Typical fund expenses	The fund's administration fees, directors' fees, and other operating expenses
Offsets to expenses	None
<b>Subscriptions</b>	
Minimum initial investment	\$1 million
Minimum subsequent investments	\$50,000
Frequency	Monthly
Timing	First business day of the month
Notification period	Two business days
Other subscription provisions	Investors may be charged a subscription fee of up to 3% of the investment amount. Winton has agreed not to charge this fee to Cliffwater clients
<b>Redemptions</b>	
Frequency	Monthly
Timing	First business day of each month
Notification period	Two business days
Gate	No
Distribution of proceeds	Paid within 10 business days
Suspension provisions	The Board of Directors may suspend redemptions
Other withdrawal provisions	Investors may be charged a redemption fee of 3%, 2% or 1% if they redeem within the first, second or third year, respectively. Winton has agreed to waive these fees for Cliffwater clients
<b>Liquidity</b>	
Lock-up	No lock-up for Cliffwater clients. See "Other Withdrawal Provisions" above
Early withdrawal penalties	See "Other Withdrawal Provisions" above
<b>Key man provisions</b>	
Transferability	None
	Only with the prior written consent of the Board of Directors
<b>Side pockets for illiquid investments</b>	
Side Letters	None
	Some clients do have side letters with respect to idiosyncratic investment concerns but none have advantageous terms

**Appendix: Glossary**

Alpha	Measure of a fund's excess returns over market indices. Alpha represents the portion of a portfolio's returns attributable to manager skill.
Arbitrage Strategy	A hedge fund style that aims to profit from the discrepancy in valuation between related securities, which may include equities, fixed income, derivatives, etc. An example is convertible arbitrage, which attempts to exploit the mispricing between embedded options in convertible bonds and the underlying security.
Beta	Measure of a portfolio's return sensitivity to a market index. The higher the beta, the greater the sensitivity to the market. A portfolio with a beta of 1.0 should move directly in line with the market index.
Convexity	A measure of the sensitivity of a bond's duration to changes in interest rates. Bond portfolios with positive convexity are structured to have greater upside, when interest rates decline, than downside when interest rates increase.
Credit Strategy	A hedge fund style that typically invests in high yield and high grade bonds, bank loans, credit default swaps and structured products. Managers use fundamental credit analysis to identify mispriced debt instruments and express their views through long and short positions.
Derivative	A security whose price is derived from the value of one or more of the underlying variables, commonly the price of another security. An example is a call option which gives the holder the right, but not the obligation, to buy an asset at a specified price for a limited period of time. Derivatives can be used to hedge risk, speculate, or establish arbitrage positions.
Distressed Strategy	A hedge fund style that seeks to take advantage of corporate securities in default, under bankruptcy protection, in distress or heading toward such a condition, or in liquidation. Some distressed managers attempt to add value by becoming actively involved in the restructuring process.
DV01	The hypothetical mark-to-market impact on a fixed income portfolio of a 1 basis point increase in the credit spread of each asset.
DV1%	The hypothetical mark-to-market impact on a fixed income portfolio of a 1% increase in the credit spread of each asset.
Early Withdrawal Penalty	A fee assessed to investors that redeem assets prior to the expiration of a "soft" lock-up. The penalty is a percentage of assets, typically 2% to 5%, and these fees generally accrue to the fund.
Equity Long/Short Strategy	A hedge fund style that primarily allocates capital to long and short positions in equities and equity derivatives. Exposures range from net long to market neutral to dedicated short. Some equity long/short funds focus on specific sectors (e.g., technology and healthcare) or regions (e.g., Asia and Europe).
Event Driven Strategy	A hedge fund style that aims to profit from the mispricing of securities related to hard and/or soft catalysts. Examples include mergers (merger arbitrage), restructurings, bankruptcies, litigation, regulatory and legislative changes.
F-Stat (p-value)	Measure of the statistical significance of a regression. A smaller p-value associated with the F-stat indicates a higher level of statistical significance. For example, a p-value of .01 or less indicates significance at the 99% level.
Expense Ratio	All expenses charged to the fund other than those related to trading and financing. These expenses typically include organizational expenses; fund legal, compliance, audit and administrative fees (including middle/back office services); directors' fees and expenses; fund-related insurance costs and research and data fees. Charges related to entering into, maintaining, and financing a position are not included in the ratio. These charges would typically include commissions, margin and other finance charges ("carry"), stock loan costs net of short rebate, brokerage charges, intermediation fees, and any other execution or finance related charges.
Fund of Funds	An investment vehicle that invests in a portfolio of hedge funds.
Gate	A restriction on the amount that investors can redeem from a hedge fund in a given period. Gates are designed to help prevent problems associated with large redemption requests during a specific period. Fund level gates establish this limit as a percentage of all holdings in the fund, potentially allowing redeeming investors to receive a percentage greater than the gate amount. Investor level gates limit each investor's withdrawal to a specific percentage of their account.
General Partner	The partner responsible for the management and investment decisions of the fund.
Global Macro Strategy	A hedge fund style focused on taking advantage of structural macroeconomic imbalances and trends. Global macro managers generally have broad mandates to invest globally



	across all asset classes. These managers tend to employ leverage and have exposure to global interest rates, currencies, commodities and equities.
High Water Mark (“HWM”) (also Modified HWM)	The value that a portfolio must exceed before incentive fees can be assessed. The HWM is the highest net asset value previously achieved, and ensures that the manager does not earn performance fees on gains until previous losses are recaptured. A modified HWM allows the manager to earn a reduced (one-half) incentive fee during recovery, with the full incentive fee resuming after recovering 200% of earlier losses. A modified HWM helps a manager retain talented employees during weak performance periods.
Information Ratio (“IR”)	Commonly used measure of a manager’s risk-adjusted alpha versus a benchmark or set of market indices. The IR is the ratio of excess fund returns to tracking error. LIBOR is an appropriate benchmark for evaluating absolute return strategies, with a high IR indicating consistent outperformance.
Kurtosis	Positive kurtosis measures the tendency of returns to deviate from a “normal” distribution and exhibit “fat tails” where there is a greater frequency of large losses and large gains versus what would be normally predicted. Investors should be cautious of hedge funds whose returns exhibit high positive kurtosis, also known as tail risk.
Leverage	<p>The use of explicit debt (i.e. borrowing) or implicit debt (i.e. derivatives) to achieve investment positions that exceed invested capital (NAV), thereby amplifying return but also increasing risk. A common leverage calculation is the ratio of gross notional exposure to invested capital. For example, a \$100 investment in BP stock coupled with a \$100 short sale of Exxon stock yields gross notional exposure of \$200. Leverage in this example can be described in at least two ways:</p> <ol style="list-style-type: none"> <li>The portfolio has 200% gross exposure (equal to \$200 gross notional exposure divided by \$100 NAV)</li> <li>The portfolio is one time (1x) levered (equal to \$100 in debt divided by \$100 NAV)</li> </ol> <p>As illustrated in the example, the \$200 gross notional exposure equals the absolute value total of both \$100 long (“gross long”) and \$100 short (“gross short”) asset exposures. The measurement of gross notional exposure varies by asset class:</p> <ul style="list-style-type: none"> <li><i>Equities</i> – the market value of long and short positions</li> <li><i>Corporate Debt and Municipal Bonds</i> – the market value of long and short positions</li> <li><i>US Treasuries (and other highly rated government debt)</i> – the market value of long and short positions, adjusted to a 10 year bond equivalent maturity (approximate 9 year duration), so that a \$100 exposure to a 2 year duration bond is recognized as a lower risk compared to a \$100 20 year duration bond. The \$100 3 year duration bond is said to have a \$33 10 year bond equivalent exposure (\$100 times 3, divided by 9) while the \$100 20 year duration bond is said to have a \$222 10 year bond equivalent exposure (\$100 times 20, divided by 9)</li> <li><i>Options</i> – the delta adjusted exposure rather than the total notional value of the underlying reference asset. Delta adjusted exposure represents the implied shares/holdings necessary to hedge the options position</li> <li><i>Credit Default Swaps</i> – total notional exposure of the underlying reference credit</li> <li><i>Interest Rate Swaps</i> – total notional exposure (expressed as 10-year bond equivalent, per the duration adjustment process described above) to reference security or index</li> <li><i>Futures/Forwards</i> – total notional exposure to reference security or index</li> </ul>
Limited Partner	Investors are limited partners in the hedge fund and are “limited” in that they have no voice in hedge fund investment or operational matters, and their losses are limited to amounts invested.
Liquidity	The ease with which a hedge fund can convert its holdings to cash. Funds with higher liquidity can close out of positions more easily and with fewer costs.
Lock-up	The period of time before an investor is eligible to redeem from a hedge fund. Lock-ups of one or two years are typical, and may apply to each subsequent investment. The liquidity of the strategy typically influences the length of the lock-up. For example, distressed funds typically have longer lock-up periods than macro and equity long/short funds.
Hard	Assets can not be redeemed during the lock-up period.
Soft	Assets may be redeemed prior to expiration of the lock-up period, but an early redemption penalty must be paid.
Management Fee	Compensation for management of the hedge fund. Management fees typically range from 1% to 2% of assets.
Macro Overlay	A supplemental component of a portfolio designed to change the exposure of the underlying portfolio to various macroeconomic factors.

Margin (Encumbered Cash)	Cash posted as collateral with a broker or exchange to satisfy the trading requirements of derivative contracts.
Margin-to-equity ratio	The percentage of portfolio capital posted as margin with a broker or exchange (i.e., margin capital divided by total capital). In a portfolio composed entirely of derivative contracts, this number represents the percentage of encumbered cash in the portfolio. This is a common measure of leverage used by CTA managers, since it is proportional to the amount of notional exposure per dollar of capital. For example, if one CTA portfolio has a higher margin-to-equity ratio than another, all else being equal, the former portfolio has higher leverage.
Master-Feeder Fund Structure	A fund structure which allows for onshore and offshore fund vehicles to be managed as a single portfolio.
Master Fund	The master fund is that part of a master-feeder structure into which the feeder funds invest and which manages the single combined investment portfolio. The master fund is generally a non-US corporate entity.
Feeder Funds	Two separate legal entities, one a U.S. onshore partnership (LP) and the other a non-U.S. offshore corporation (LTD) which accommodates investor groups with different tax and regulatory needs.
Max Drawdown	The greatest investment loss experienced by a hedge fund, measured from peak (prior highest cumulative return) to valley (subsequent lowest cumulative return).
Multi-Strategy	A hedge fund style that opportunistically allocates capital to various hedge fund strategies and uses diversification to reduce asset-class and single-strategy risks. Ideally, multi-strategy portfolio managers tactically shift capital among strategies in order to capitalize on current market opportunities. Some multi-strategy funds act as a collection of traders, while others have a more formal organizational structure.
Net Asset Value (NAV)	A fund's total assets less total liabilities.
Notional Exposure	The total dollar exposure represented by a position. Due to leverage, this amount may be greater than the equity in the position. For example, a CDS contract offering \$1 million of protection has a notional value of \$1 million even though the cost of the contract itself is likely to be a small fraction of that amount.
Gross Long	The total notional exposure of all long positions in a portfolio. Long positions benefit from increases in securities prices.
Gross Short	The total notional exposure of all short positions in a portfolio. Short positions benefit from decreases in securities prices.
Net	The difference between a portfolio's gross long and gross short exposures. A net long position indicates a higher portion of long positions in the portfolio, and that the portfolio should generally benefit from an increase in asset prices. A net short position indicates the opposite.
Total Gross	The sum of a portfolio's gross long and gross short exposures.
Offshore Fund	Hedge funds which are registered/domiciled in offshore jurisdictions such as the Cayman Islands, British Virgin Islands, and Luxembourg. Offshore funds provide eligible investors with tax benefits and regulatory relief. Because offshore funds are administered outside of the U.S., non-U.S. investors and tax exempt U.S. investors such as ERISA pension funds can take advantage of tax benefits.
Onshore Fund	A fund with a U.S. legal domicile under the tax and regulatory locale of the fund manager. Most onshore funds are limited partnerships registered under Delaware law.
Performance (Incentive) Fee	The manager's share of the profits above the high water mark and net of management fees and expenses. The fee is typically 20%.
Serial Correlation	The correlation between current and past returns. In an efficient market, there should be no correlation between returns from one period to the next. Some hedge funds, particularly credit oriented funds, exhibit positive serial correlation which indicates that security pricing may be "sticky" and not change from period to period.
Sharpe ratio	Commonly used measure of a manager's risk-adjusted alpha in relation to a risk-free asset. The Sharpe ratio is equal to excess returns divided by excess risk. A high Sharpe ratio indicates that a manager has generated high risk-adjusted returns.
Side Letter	An addendum to the partnership and subscription agreement which stipulates key terms for a particular investor, such as negotiated fee levels, MFN (Most Favored Nation) clauses, transparency requirements, or special liquidity terms.
Side Pocket	A segregated portion of a portfolio that may be used to hold illiquid, less frequently priced securities. Once a holding is placed in a side pocket, only current investors participate in its performance. Subsequent investors do not share in the gains/losses associated with assets previously placed in side pockets. Performance fees are paid when side pocket

	investments are realized. Assets placed into side pockets are not available for withdrawal until the investments are realized.
Skew	Skew measures the tendency of returns to deviate from a symmetrical distribution. Given two return distributions with the same mean and standard deviation, the distribution with the higher positive skew would be more desirable. Several hedge fund styles, particularly arbitrage strategies, exhibit return patterns that are negatively skewed, an undesirable trait but one that can be managed through style diversification at the portfolio level.
Soft Dollars	Commission credits from trading securities that can be used to pay for research or other services that brokers provide to hedge funds and that are intended for the benefit of investors. Most funds operate under the SEC 28e safe harbor rules that restrict soft dollar use to research only.
Suspension Provisions	A hedge fund provision that allows the manager to suspend all redemptions, generally to deal with extraordinary market circumstances.
T-Stat (p-value)	Measure of the statistical significance of an individual independent variable in a regression. A smaller p-value associated with the T-stat indicates a higher level of statistical significance. For example, a p-value of .01 indicates significance at the 99% level.
Tail Risk	A form of risk that arises when portfolio returns deviate from a “normal” distribution and exhibit “fat tails” where there is a greater frequency of large losses and large gains versus what would be predicted. Although technically positive kurtosis, tail risk is usually associated with downside risk in an extreme scenario.
Tracking Error	Measure of the volatility of an investment's performance relative to a benchmark.
Transferability	The terms under which an investor may transfer ownership rights to another investor. Typically requires the approval of the manager or administrator.
Unencumbered Cash	Unencumbered cash is equal to cash holdings less margin requirements.
VAMI	The Value Added Monthly Index (VAMI) reflects the growth of a hypothetical \$1,000 in a given investment over time.
Value at Risk (VaR)	The potential loss in value of a portfolio given a specific time horizon and probability. For example, if a portfolio has a one day 5% VaR of \$1 million, there is a 5% chance the portfolio will lose more than \$1 million on any given day.