

CLIFFWATER^{LLC}

INVESTMENT ADVISORY SERVICES

Los Angeles • New York

**Hedge Fund Operations Due Diligence Report
Winton Futures Fund Limited**

March 2011

Investment Due Diligence Report provided under separate cover.

Hedge Fund Operations Due Diligence Report

Firm Name:	Winton Capital Management Limited		
Fund Name:	Winton Futures Fund Limited		
Style:	Macro	Location:	Conference Call
Review Date:	March 11, [REDACTED]	[REDACTED]	[REDACTED]

Operations Score: [REDACTED]			
1. Business Management	[REDACTED]	4. Valuation	[REDACTED]
2. Trading and Investment Operations	[REDACTED]	5. Risk Management	[REDACTED]
3. Financing and Counterparty Risk	[REDACTED]	6. Investor Related Practices	[REDACTED]

Summary

Since Cliffwater's last operational review in July 2010, Winston decided to implement an International Standard on Assurance Engagements ("ISAE") 3402, which is very similar to a SAS 70 review. The manager anticipates that it will be able to complete the level 1 review by June 2011 and will have the level 2 completed by June 2012. The manager has also made the following changes over the past nine months:

- The investment research team has been reorganized. Prior to the change, researchers were arranged in groups based on a specific asset class. Now, there are separate research teams for equities and foreign exchange but all other asset classes are blended together. The investment committee feels that this organization will allow the research teams to be more efficient and to implement successful models across a broader range of assets quicker. In addition, the manager is planning to opportunistically add professionals to the research teams over the next year
- The operations team has moved to an updated version of the settlement system.
- The manager is now keeping much of its extra cash in a product called [REDACTED]. This is a new product in which the funds will transfer their cash to the [REDACTED] bank, which will in turn deposit a portion of the cash in individual accounts in the funds' name at FDIC insured banks for up to the limit of the FDIC insurance. For example, if the funds had \$1 million, and the FDIC limit is \$250,000, which it is today, the [REDACTED] would deposit \$250,000 at four FDIC insured banks, so the total amount would be insured. The manager feels the funds' cash is safer in this product than it would be if it were kept at an individual bank.
- The compliance team is in the process of preparing to register with the US SEC. It hired [REDACTED] to do a gap analysis and believes it will have to make only minor changes to meet SEC requirements.
- Added a Deputy General Counsel to the compliance team. He is a member of the board and will be based in the US. The manager believes that having a member of the compliance team in the United States will be beneficial given all the regulatory changes that are resultant from Dodd-Frank.

Winton's London-based team of 60 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 97% of all trades are executed without any manual intervention. The firm recently expanded its trading operations to execute trades from Hong Kong but all trades are confirmed, cleared, and settled from its London office. Winton could bring its procedures fully in line with best practices by reconciling with its administrator on a daily basis. However, this does not seem to materially increase trading risk because both the manager and the administrator perform a full reconciliation with the prime brokers on a daily basis.

This report reflects information only through the date hereof. Our reporting relies upon the accuracy and completeness of financial 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.

Section 1: Business Management

Score:

Winton meets all best practices which assess firm organization, compliance, investor protections and disaster recovery.

Ms. Louisa Gjertsen serves as the Chief Compliance Officer and she is assisted by a paralegal and a US based deputy general counsel, as discussed above. She is responsible for ensuring the fund's policies are adhered to, monitoring personal trading, and filing regulatory reports as necessary. There is a comprehensive compliance manual which all employees are required to sign-off on in writing when they join and annually thereafter or whenever changes are made. The manager is based in London so it is registered with the FSA and CFTC. The personal trading policy is very restrictive and all trades must be pre-approved. All brokers send trade and position reports directly to the Chief Compliance Officer on a semi-annual basis. In addition, the manager does not use soft dollars.

The manager has a comprehensive disaster recovery site [REDACTED]. At its [REDACTED], one floor is normal working space and an additional half of a floor serves as back-up space in case the London office is ever not accessible. There are separate servers at Oxford and London and all data is replicated to both servers on a near-real time basis. The manager also maintains a professional liability insurance policy which includes an errors and omissions policy.

Best Practices Comparison

Organization and Governance		Yes	No
1	[REDACTED]		
2	[REDACTED]		
3	[REDACTED]		
4	[REDACTED]		
Compliance			
5	[REDACTED]		
6	[REDACTED]		
7	[REDACTED]		
8	[REDACTED]		
9	[REDACTED]		
10	[REDACTED]		
11	[REDACTED]		
12	[REDACTED]		
13	[REDACTED]		
14	[REDACTED]		
Investor Protections			
15	[REDACTED]		
16	[REDACTED]		
17	[REDACTED]		
18	[REDACTED]		
19	[REDACTED]		
20	[REDACTED]		
21	[REDACTED]		
22	[REDACTED]		
23	[REDACTED]		

24	[Redacted]
Disaster Recovery	
25	[Redacted]
26	[Redacted]
27	[Redacted]

Background

Criteria	Cliffwater Comments
Firm structure: [Redacted]	[Redacted]
Fund structure and domicile [Redacted]	
Compliance policies: [Redacted]	
Specific policies: [Redacted]	
Legal proceedings [Redacted]	
Regulatory authorities: [Redacted]	
Systems and platforms: [Redacted]	

IT staff size and turnover:	[REDACTED]
Backup procedures:	
Business continuity and disaster recovery plan:	
Insurance coverage:	

Section 2: Trading and Investment Operations

Score: [REDACTED]

Winton meets almost all trading and investment operations best practices which assess outside service providers, infrastructure, trading and accounting processes, counterparty monitoring, and cash management except that it does not perform a full reconciliation to its administrator on a daily basis. However, seems to increase operational risk only minimally because it does perform a full reconciliation to its prime brokers on a daily basis.

[REDACTED] serves as the fund’s administrator. It employs more than 1000 employees and has earned a level 2 SAS 70. [REDACTED] and [REDACTED] serve as the prime brokers. [REDACTED] is a joint venture between [REDACTED] and [REDACTED] and is one of the largest clearers of European derivatives. The law firms of [REDACTED] are retained to advise the funds as needed.

There are six traders in Kensington and three in Hong Kong that typically execute 500 to 700 trades a day on average. Traders execute orders and monitor the trading system but do not have discretion over orders other than to shut down trading if there are circumstances that the models are not designed to cope with. Typically only 2% to 3% of the trades require manual intervention. All trades are routed thru New Edge Group but Barclays Bank PLC serves as a back-up prime broker [REDACTED]

The operations team is based in Hammersmith and Oxford. The team is led by very experienced personal and have experienced minimal turnover. There is a clear separation of duties between front and back office functions and all traders are not authorized to amend any trades after the day they are executed. On trade date, the reconciliation team will do an internal reconciliation between the trade blotter and the system used to generate trades, Order Book to ensure what should have been executed is actually what is executed. The following day the team will do a full reconciliation of all trades, cash, and positions with the prime brokers. In addition, the fund accounting team will reconcile out to the administrator at every month end.

Best Practices Comparison

Outside Service Providers		Yes	No
28	[REDACTED]		
29	[REDACTED]		
30	[REDACTED]		
Infrastructure			
31	[REDACTED]		
32	[REDACTED]		
33	[REDACTED]		

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Trading Practices

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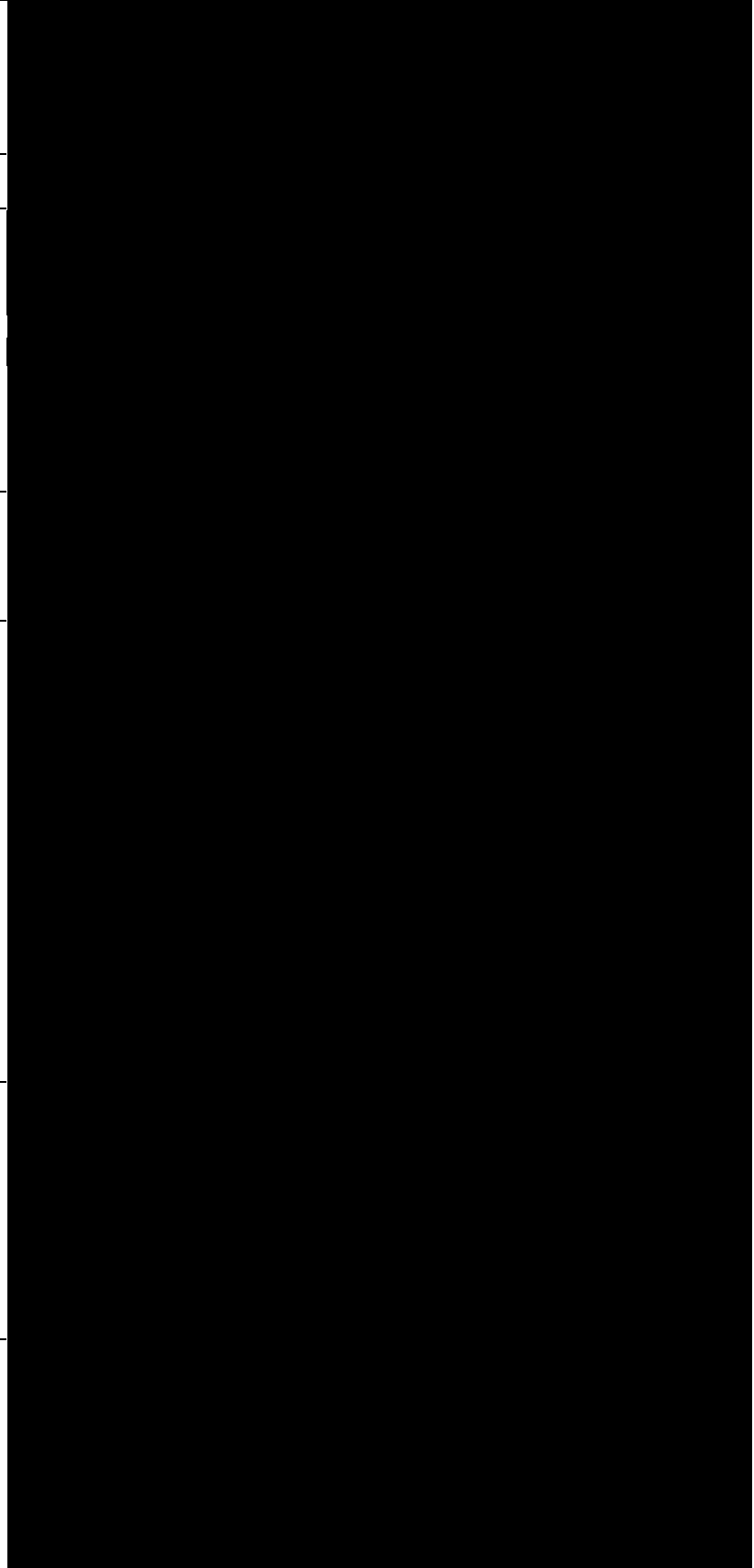

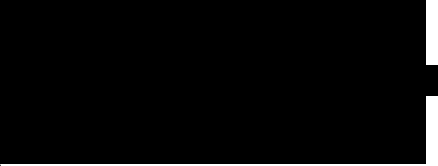


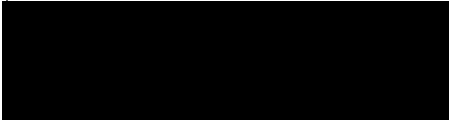
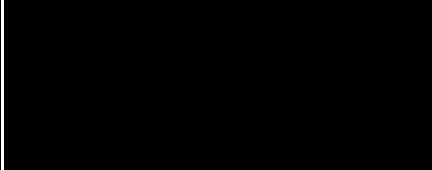
Core Accounting Processes

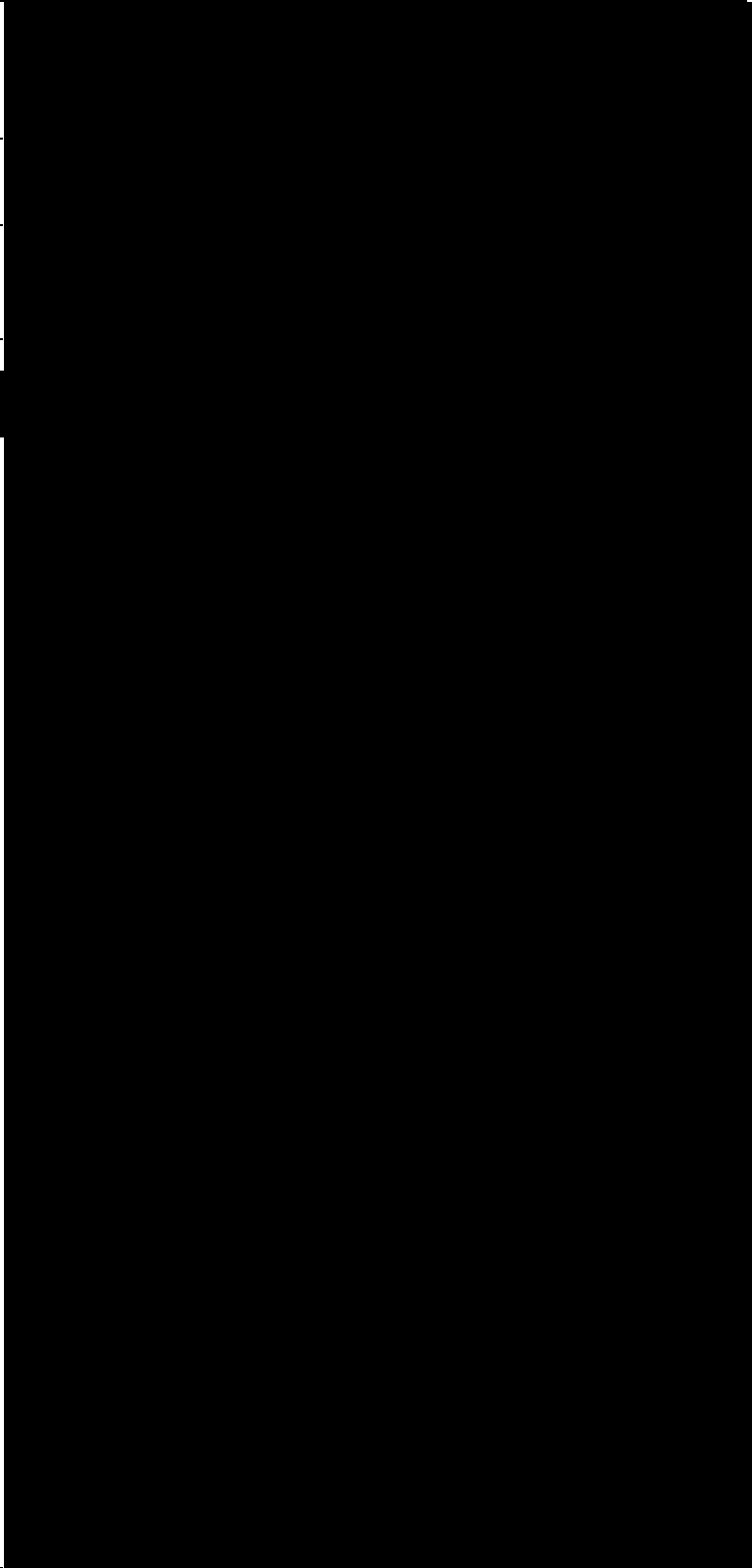
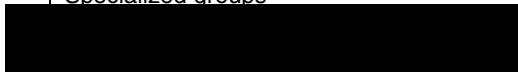


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Cash, Margin, and Collateral Management

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Entity and Contact	Onshore	Offshore
Prime Broker		
Administrator		
Audit		
Legal		
Tax		
Other (including custodian if not PB)		
Changes in providers (3 yrs)		
Any issues encountered in audit of firm or its products?		

Criteria	Cliffwater Comments
Organizational Structure: 	
Control structure and oversight 	
Trading team: 	
Types of securities traded 	
Trading practices: 	
Trade flow process: 	
Trade confirmation and reconciliation: 	

	
Specialized groups	
	
Reconciliation process with administrator:	
	
	

Section 3: Financing and Counterparty Risk

Score:

Winton meets all financing and counterparty monitoring best practices which assess how the manager finances its portfolio and manages its cash.

The fund primary source of financing is a standard margin financing agreement with [REDACTED]. It has also negotiated one ISDA master agreement with [REDACTED] but its primary motivation for putting UK equity positions on swap is to avoid the swap tax rather than to obtain leverage. The fund typically has at least 85% of its equity in unencumbered cash. As of March 11, 2011, Winton had only 6% of its equity posted as margin.

Winton does not have the authority to move cash outside its fund structure. The administrator must authorize all cash movements and it uses a [REDACTED] system called [REDACTED]. All cash movements require dual authorization signatures and each individual that has access to the system also receives a secure token ID which has a rolling pin number that changes every 30 seconds. Counterparty risk is very low because less than 1% of the fund's exposure is in over-the-counter products. All over-the-counter trading is done on ISDA documents with [REDACTED] but the manager is considering negotiating an ISDA with [REDACTED] as well.

Best Practices Comparison

Financing and Counterparty Risk		Yes	No
57	[REDACTED]		
58	[REDACTED]		
59	[REDACTED]		
60	[REDACTED]		
61	[REDACTED]		
62	[REDACTED]		
63	[REDACTED]		
64	[REDACTED]		
65	[REDACTED]		

Background

Criteria	Cliffwater Comments
Sources of financing: [REDACTED]	[REDACTED]
Counterparties and terms of arrangements: [REDACTED]	[REDACTED]
Prime broker financing: [REDACTED]	[REDACTED]

Repo agreements	
ISDAs	
Other (i.e. CDOs, debt offerings, etc.)	

Section 4: Valuation

Score:

Winton meets all valuation best practices. Overall valuation risk is low because the vast majority of the portfolio is exchange traded futures, options and forward contracts and are priced to the exchange settlement price of the primary market in which they trade. A small percentage of the portfolio is over-the-counter, plain vanilla foreign exchange swaps can be priced via broker quotes.

Although the fund values the portfolio on a daily basis, Custom House is the official valuation agent. It prices all exchange traded futures, forwards and options according via a feed from [REDACTED]

Best Practices Comparison

Valuation Personnel		Yes	No
66			
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Valuation Policy			
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Pricing Sources and FAS 157 Companies	
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Positions with No Readily Ascertainable Market Value	
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Valuation Committee	
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Background

Criteria	Cliffwater Comments
Month end closing process 	

Valuation of exchange traded (level 1) assets: [REDACTED]	
Valuation of OTC / illiquid instruments / private placement (level 2 and 3) assets [REDACTED]	

Section 5: Risk Management

Score: [REDACTED]

Winton meets all risk management best practices. The investment committee sets the overall risk target and then will intervene only if there are circumstances the models are not designed to comp with. If there is an intervention, they will simply shut down trading.

Best Practices Comparison

Structure		Yes	No
110	[REDACTED]		
111	[REDACTED]		
112	[REDACTED]		
113	[REDACTED]		
114	[REDACTED]		
115	[REDACTED]		
116	[REDACTED]		
117	[REDACTED]		
118	[REDACTED]		
119	[REDACTED]		
Risk Manager			
120	[REDACTED]		
121	[REDACTED]		
122	[REDACTED]		
123	[REDACTED]		
124	[REDACTED]		
125	[REDACTED]		
Risk Limits and Testing			
126	[REDACTED]		
127	[REDACTED]		
128	[REDACTED]		
129	[REDACTED]		
130	[REDACTED]		

131	[REDACTED]
Leverage and Liquidity Risk	
132	[REDACTED]
133	[REDACTED]
134	[REDACTED]
135	[REDACTED]
136	[REDACTED]

Background

Criteria	Cliffwater Comments
Structure of risk management group: [REDACTED]	[REDACTED]

Liquidity risk and funding:	

Section 6: Investor Related Practices

Score:

Winton meets all disclosure and investor terms best practices. The PPM details the investment terms, fees, and conditions. The fees are calculated based on the audited financial statements and based on the dollar of value added. The lock-up and gate provisions protect the fund from having to liquidate the portfolio at a discount to meet investors redemptions.

The manager provides daily performance estimates on their secure website, weekly performance estimates via email and risk reporting on the 1st and 15th of every month which is two weeks in arrears. The manager also sends a detailed investment management report on the 1st business day of each month. The independent administrator sends monthly statements and audited financials approximately 4 months after the funds' 12/31 year end. The fund does not give position level information or details of the models they employ but it welcomes onsite meetings and will discuss some aspects of the model.

Winton's financial statements are audited by [REDACTED] and audited financial statements are sent to investors within 90 calendar days of year end, which is slightly timelier than the industry standard.

Best Practices Comparison

Initial Disclosures	Yes	No
137		
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Fees and Expenses	
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Ongoing Information Provided to Investors	
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Financial Statement and Tax	
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Investor Terms	
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Background

Criteria	Cliffwater Comments
<ul style="list-style-type: none"> Quality and frequency of reporting 	

Criteria	Cliffwater Comments
Fund financial and tax statements: <div style="background-color: black; width: 250px; height: 50px; margin-top: 5px;"></div>	

Meeting History

Date	Location	Cliffwater Attendees	Manager Attendees
July 8, 2010	Conference Call		
March 11, 2011	London, UK		

Appendix: Glossary

Administrator	A service provider such as Citco or International Fund Services that handles administrative responsibilities such as calculating the fund's NAV on a monthly basis, sending the investors performance reports, and maintaining the official books and records of the fund.
Fair Value (FAS 157)	FASB Statement No. 157, Fair Value Measurements ("FAS 157"), defines fair value as <i>"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."</i> Cliffwater reviews valuations according to the Fair Value hierarchy established by FAS 157, the three levels of which are described below.
Level 1 assets	Liquid assets with readily observable prices, and therefore a reliable market value. Level 1 assets typically include stocks, bonds, mutual funds, and any other assets that have a regular "mark to market" pricing mechanism.
Level 2 assets	Assets with a value based on market inputs that are not directly observable on a central exchange. These assets are often priced via quotations from dealers. An example of a level 2 asset is a credit default swap which is typically priced via indicative quotations from broker dealers.
Level 3 assets	Illiquid assets with a value that cannot be determined by observable measures. The fair value of a level 3 asset can only be estimated by using significant assumptions as inputs to the valuation model. Mortgage-backed securities are an example of this type of asset.
Leverage	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

	<p>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"> The portfolio has 200% gross exposure (equal to \$200 gross notional exposure divided by \$100 NAV) The portfolio is one time (1x) levered (equal to \$100 in debt divided by \$100 NAV) <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"> <i>Equities</i> – the market value of long and short positions <i>Corporate Debt and Municipal Bonds</i> – the market value of long and short positions <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) <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 <i>Credit Default Swaps</i> – total notional exposure of the underlying reference credit <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 <i>Futures/Forwards</i> – total notional exposure to reference security or index
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.
Operations Score	A measure of how well the firm meets best practice standards on a scale of A (meets all best practice standards) to F (does not meet several best practice standards). A rating of “C” or lower indicates Cliffwater believes the firm’s departure from best practices could hurt returns or lead to the misappropriation of firm assets.
Prime Broker	A prime broker custodies assets, provides settlement services, facilitates the borrowing of securities for short positions, and may provide performance reporting for hedge funds. JPMorgan, Goldman Sachs, Morgan Stanley and UBS are large prime brokers.
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.
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.
Unencumbered Cash	Unencumbered cash is equal to cash holdings less margin requirements.