WINTON CAPITAL MANAGEMENT LIMITED

Capital Requirement Directive Pillar 3 Disclosure

In respect of the year ended 31 December 2021

Note on the Investment Firms Prudential Regime ("IFPR"):
IFPR was effective 1 January 2022. However, the transitional provisions (specifically MIFIDPRU TP 12) require firms with a reference date (i.e. the financial year-end) prior to 1 January 2022 to comply with the regulatory public disclosure requirements of the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("**BIPRU**"). Accordingly, this Pillar 3 Disclosure document has been prepared in line with the requirements in BIPRU. The Pillar 3 Disclosure document will be the final disclosure under BIPRU and will be replaced by disclosures under IFPR (MiFIDPRU 8) from 2023.

Background

The Capital Requirements Directive ("**CRD**") and the Alternative Investment Fund Managers Directive ("**AIFMD**") (together "the Directives") established a regulatory framework across the European Union ("**EU**") that governs the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the Directives were implemented by the FCA in its regulations through the General Prudential Sourcebook ("**GENPRU**"), BIPRU and the Interim Prudential sourcebook for Investment Businesses ("**IPRU-INV**").

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; and
- Pillar 3 requires a firm to publish details regarding its risk management processes, underlying risks, and capital position.

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

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 ("**WGL**"), a UK-incorporated holding company. WGL is the parent of all the companies within the Winton group (the "**Group**" or "**Winton**"). In accordance with BIPRU 8, WGL 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 Board (the "**Board**"). Unless otherwise stated, all figures are as at 31 December 2021.

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 are 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 alternative 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 the Board. 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 Chief Compliance Officer ("CCO") oversees the independent risk management function which has second-line oversight of the investment management business meeting the requirements set out under the AIFMD. The Chief Operating Officer ("COO") is responsible for overseeing counterparty due diligence and the internal audit function.

Risk Management Framework

Winton's risk management framework aims to ensure::

- responsibility is assigned for the identification and day-to-day management of risks to senior individuals within the business;
- all employees are aware of their responsibilities to manage and control risks, in line with their roles and responsibilities;
- compliance with applicable legislative and regulatory requirements, guidance and principles; and
- the governance bodies receive relevant and timely management information to assist in the setting and monitoring of risk.

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 Board 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.

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 a 'Report on Controls', which is produced on an annual basis. This review is carried out by Internal Audit with the objective of providing a comprehensive description of the controls environment and confirmation of the testing of the relevant controls. The report is available to clients on request.

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 overriding objective of the Group's investment risk management is to avoid a permanent impairment of investor capital. This objective informs both the design and operation of Winton's investment strategies.

The Group considers investment risk to comprise both market event risk, which is the possibility that an unforeseen event such as a terrorist strike or natural disaster, including pandemics or any other serious public health concern, 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 the investment portfolios.

Key strategies to mitigate these risks include operating the investment portfolios with low levels of leverage, diversifying holdings across many liquid markets, and designing the 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 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. 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 amounting to millions of pounds must be borne in mind. It is reduced in Winton's case by the fact that Winton does not, and is not permitted to, hold 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; and ongoing third party oversight processes including regular due diligence visits.

Technology and cyber security risk

This is the risk relating to the 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 all staff; and the enforcement of information security and acceptable use policies. It also includes the risks relating to the 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 multiple data centres with ability to switch IT operations between them; and a business continuity and disaster recovery plan.

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 and currency hedging activities.

- *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 is supported in its responsibilities by the internal audit function.

Capital Requirements and Resources

<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 31 December 2021, the Firm has concluded that its IPRU-INV capital requirement is £8.7m 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 was calculated as part of the Internal Capital Adequacy Assessment Process ("**ICAAP**"[1]) and represents 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. 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 show that the current level of capital is sufficient to cover the risks identified and monitored by the Group.

As at 31 December 2021, the Group's and the Firm's regulatory capital position under BIPRU was:

	WCM Firm only	*Consolidated Group*
Capital Items	*£'m*	*£'m*
Share capital	2.4	2.4
Share premium	9.8	2.4
Audited reserves	44.5	215.0
Total Tier 1 Capital	**56.7**	**219.8**
Less Investment in own shares	-	(3.5)
Less Material holdings	-	(75.5)
Total Tier 1 Capital after deductions	**56.7**	**140.8**
Pillar 1 requirement	8.7	18.7
Pillar 2 requirement	13.1	13.1

ICAAP - Compliance with Pillar 2

The aim of the ICAAP is to ensure that the Group 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

[1] Following the introduction of IFPR, ICAAP is replaced by the Internal Capital and Risk Assessment ("**ICARA**") and disclosures related to the ICARA will be published from 2023.

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 Board. The ICAAP is used as a tool to inform the Board and other governing bodies, such as the Executive Management Committee, of the current assessment of the Group's risks, how the Group intends to mitigate those risks, and how much current and future capital it is necessary to hold, taking into consideration other mitigating factors.

As part of the ICAAP, Winton has undertaken an assessment of the adequacy of its capital based on all risks to which the Firm is exposed, in addition to stress testing and scenario analysis of operational and business risks and costs to wind down the business. The analysis concluded that the Group 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 Group must report annually on the remuneration policy and practice for employees termed "Identified Staff". Identified Staff are defined as employees who perform a significant management 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 2022, firms disclose the remuneration of Identified Staff received in 2021.

From 1 January 2022, the Group is subject to the remuneration rules in SYSC 19G (the MiFIDPRU Remuneration Code) and has implemented a Remuneration Policy to meets its obligations under these rules.

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 Board is responsible for overseeing the design and implementation of the Remuneration Policy and approving total individual remuneration of Identified Staff (see below).

Role of the relevant stakeholders

The Board 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 Board seeks to preserve shareholder value by ensuring the successful retention, recruitment, and motivation of senior employees.

Identified Staff[2] 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 and Firm's executive directors and certain other individuals whose actions have a material impact on the risk profile of the Group or Firm. All Identified Staff are members of senior management.

[2] Identified Staff include Material Risk Takers as defined under the Remuneration Policy in accordance with the requirements in MIFIDPRU.

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 may be deferred, for example, in periods where the Group has received significant performance fees 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 for the period ended 31 December 2021 was £9.3 million.