Unknown

From: [redacted]
Sent: Wednesday, May 21, 2003 5:47 PM
To: Personal Privacy
Subject: FW: Follow up

Importance: High

Attachments: Kingate Global.pdf; Fairfield_Sentry.pdf; Hedge.pdf; MarketMaster.pdf

Kingate Global.pdf (12 KB) Fairfield_Sentry.pdf (12 KB) Hedge.pdf (2 MB) MarketMaster.pdf (140 KB)

> Mavis,
>
> Following our conversation yesterday, here is some additional info:
>
> - Background: as I mentioned, a number of investors (Tremont,
> Fairfield Greenwich Group, some private investors, etc) have
> discretionary accounts with Bernie Madoff Securities ("BMS"), one of
> the largest brokers in New York. Practically, these guys sponsor funds
> that are actually managed by BMS. The firm does not charge any
> management or performance fees to these accounts but rather brokerage
> commissions. We estimate the amount of money managed under this
> strategy by BMS somewhere between USD 8-10 Billion. The strategy known
> as "Split Strike Conversion", consist in buying a basket of large cap
> stocks (universe: S&P100) and buying a strangle (selling OEX calls and buying OEX puts).
>
> So far there is nothing unusual, but here are some of our concerns:
>
> - according to BMS, the options are traded with a number of traders
> and crossed on the CBOE. With a 8-10 billion size, you must see the
> volume, but unfortunately you don't. We actually checked with some of
> the largest brokers (UBS, Merril, etc) which told us they never traded
> with them OEX options. The question is do they really implement the full strategy.
> - the strategy is not duplicable by anyone else as far as we know.
> - there is no correlation to the overall equity markets (in over 10
> years).
> - accounts are typically in cash at month end.
> - since the accounts are at BMS, the investors (i.e. the feeders that
> have discretionary accts) receive BMS brokerage statements. There are
> no third party brokers involved in the process. The auditor of the
> firm is a related party to the principal.
> - finally, given the performance of the different accounts, BMS never
> had to face redemption. In fact given the fact that the different
> feeders are closed for new investments, there is always replacement
> capital (1/5 ratio according to some people).
>
> As I said, we don't know if this performance is attributable to the

DIVISION EXHIBIT 3

> exceptional talent of the manager or a combination of other factors.
> We don't know neither if there are conflicts of interest between the
> two activities of BMS. Finally, please do not disclose this
> conversation to any other party.
> You guys can call us if you have any other question.
> All the best.
>
> Attached, you will find the performance of two of the largest feeders,
> an article from MAR Hedge as well as a presentation from a FOF
> describing the strategy.
>
>
>
> <<Kingate Global.pdf>> <<Fairfield_Sentry.pdf>> <<Hedge.pdf>>
> <<MarketMaster.pdf>>
>
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> ____
> [redacted]
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HEDGE

MAR

Issue No. 89
May 2001

Madoff tops charts; skeptics ask how

By Michael Ocrant

Mention Bernard L. Madoff Investment Securities to anyone working on Wall Street at any time over the last 40 years and you're likely to get a look of immediate recognition.

After all, Madoff Securities, with its 600 major brokerage clients, is ranked as one of the top three market makers in Nasdaq stocks, cites itself as probably the largest source of order flow for New York Stock Exchange-listed securities, and remains a huge player in the trading of preferred, convertible and other specialized securities instruments.

Beyond that, Madoff operates one of the most successful "third markets" for trading equities after regular exchange hours, and is an active market maker in the European and Asian equity markets. And with a group of partners, it is leading an effort and developing the technology for a new electronic auction market trading system called Primex.

But it's a safe bet that relatively few Wall Street professionals are aware that Madoff Securities could be categorized as perhaps the best risk-adjusted hedge fund portfolio manager for the last dozen years. Its \$6–7 billion in assets under management, provided primarily by three feeder funds, currently would put it in the number one or two spot in the Zurich (formerly MAR) database of more than 1,100 hedge funds, and would place it at or near the top of any well-known database in existence defined by assets.

More important, perhaps, most of those who are aware of Madoff's status in the hedge fund world are baffled by the way the firm has obtained such consistent, nonvolatile returns month after month and year after year.

Madoff has reported positive returns for the last 11-plus years in assets managed on behalf of the feeder fund known as Fairfield Sentry, which in providing capital for the program since 1989 has been doing it longer than any of the other feeder funds. Those other funds have demonstrated equally positive track records using the same strategy for much of that period.

Lack of volatility

Those who question the consistency of the returns, though not necessarily the ability to generate the gross and net returns reported, include current and former traders, 16▶

HEDGE UPDATE

Michael Berger catches a jail break

New chapters have been written in the continuing saga of **Michael Berger's Manhattan Investment Fund**, with the admitted fraudster's apparently inevitable jail term deferred when his counsel quit. Meanwhile, the civil cases against the 'deep pockets' associated with Berger—his prime broker **Bear, Stearns**, his auditor **Deloitte** 2▶

◄1 other money managers, consultants, quantitative analysts and fund-of-funds executives, many of whom are familiar with the so-called split-strike conversion strategy used to manage the assets.

These individuals, more than a dozen in all, offered their views, speculation and opinions on the condition that they wouldn't be identified. They noted that others who use or have used the strategy—described as buying a basket of stocks closely correlated to an index, while concurrently selling out-of-the-money call options on the index and buying out-of-the-money put options on the index—are known to have had nowhere near the same degree of success.

The strategy is generally described as putting on a "collar" in an attempt to limit gains compared to the benchmark index in an up market and, likewise, limit losses to something less than the benchmark in a down market, essentially creating a floor and a ceiling.

Madoff's strategy is designed around multiple stock baskets made up of 30–35 stocks most correlated to the S&P 100 index. In marketing material issued by Fairfield Sentry, the sale of the calls is described as increasing "the standstill rate of return, while allowing upward movement of the stock portfolio to the strike price of the calls." The puts, according to the same material, are "funded in large part by the sale of the calls, [and] limit the portfolio's downside.

"A bullish or bearish bias can be achieved by adjusting the strike prices of the options, overweighting the puts, or underweighting the calls. However, the underlying value of the S&P 100 puts is always approximately equal to that of the portfolio of stocks," the marketing document concludes.

Throughout the entire period Madoff has managed the assets, the strategy, which claims to use OTC options almost entirely, has appeared to work with remarkable results.

Again, take the Fairfield Sentry fund as the example. It has reported losses of no more than 55 basis points in just four of the past 139 consecutive months, while generating highly consistent gross returns of slightly more than 1.5% a month and net annual returns roughly in the range of 15.0%.

> "This has been a good period to do this kind of stuff"

Among all the funds on the database in that same period, the Madoff/Fairfield Sentry fund would place at number 16 if ranked by its absolute cumulative returns.

Among 423 funds reporting returns over the last five years, most with less money and shorter track records, Fairfield Sentry would be ranked at 240 on an absolute return basis and come in number 10 if measured by risk-adjusted return as defined by its Sharpe ratio.

What is striking to most observers is not so much the annual returns—which, though considered somewhat high for the strategy, could be attributed to the firm's market making and trade execution capabilities—but the ability to provide such smooth returns with so little volatility.

The best known entity using a similar strategy, a publicly traded mutual fund dating from 1978 called Gateway, has experienced far greater volatility and lower returns during the same period.

The capital overseen by Madoff through Fairfield Sentry has a cumulative compound net return of 397.5%. Compared with the 41 funds in the Zurich database that reported for the same historical period, from July 1989 to February 2001, it would rank as the best performing fund for the period on a risk-adjusted basis, with a Sharpe ratio of 3.4 and a standard deviation of 3.0%. (Ranked strictly by standard deviation, the Fairfield Sentry funds would come in at number three, behind two other market neutral funds.)

Questions abound

Bernard Madoff, the principal and founder of the firm who is widely known as Bernie, is quick to note that one reason so few might recognize Madoff Securities as a hedge fund manager is because the firm makes no claim to being one.

The acknowledged Madoff feeder funds—New York-based Fairfield Sentry and Tremont Advisors' Broad Market, Kingate, operated by FIM of London; and Swiss-based Thema—derive all the incentive fees generated by the program's returns (there are no management fees), provide all the administration and marketing for them, raise the capital and deal with investors, says Madoff.

Madoff Securities' role, he says, is to provide the investment strategy and execute the trades, for which it generates commission revenue.

[Madoff Securities also manages money in the program allocated by an unknown number of endowments, wealthy individuals and family offices. While Bernie Madoff refuses to reveal total assets under management, he does not dispute that the figure is in the range of $6 billion to $7 billion.]

Madoff compares the firm's role to a private managed account at a broker-dealer, with the broker-dealer providing investment ideas or strategies and executing the trades and making money off the account by charging commission on each trade.

Skeptics who express a mixture of amazement, fascination and curiosity about the program wonder, first, about the relative complete lack of volatility in the reported monthly returns.

But among other things, they also marvel at the seemingly astonishing ability to time the market and move to cash in the underlying securities before market conditions turn negative; and the related ability to buy and sell the underlying stocks without noticeably affecting the market.

In addition, experts ask why no one has been able to duplicate similar returns using the strategy and why other firms on Wall Street haven't become aware of the fund and its strategy and traded against it, as has happened so often in other cases; why Madoff Securities is willing to earn commissions off the trades but not set up a separate asset management division to offer hedge funds directly to investors and keep all the incentive fees for itself, or conversely, why it doesn't borrow the money from creditors, who are generally willing to provide leverage to a fully hedged portfolio of up to seven to one against capital at an interest rate of Libor-plus, and manage the funds on a proprietary basis.

These same skeptics speculate that at least part of the returns must come from other activities related to Madoff's market making. They suggest, for example, that the bid-ask spreads earned through those activities may at times be used to "subsidize" the funds.

According to this view, the benefit to Madoff Securities is that the capital provided by the funds could be used by the firm as "pseudo equity," allowing it either to use a great deal of leverage without taking on debt, or simply to conduct far more market making by purchasing additional order flow than it would otherwise be able to do.

And even among the four or five professionals who express both an understanding of the strategy and have little trouble accepting the reported returns it has generated, a majority still expresses the belief that, if nothing else, Madoff must be using other stocks and options rather than only those in the S&P 100.

Bernie Madoff is willing to answer each of those inquiries, even if he refuses to provide details about the trading strategy he considers proprietary information.

And in a face-to-face interview and several telephone interviews, Madoff sounds and appears genuinely amused by the interest and attention aimed at an asset management strategy designed to generate conservative, low risk returns that he notes are nowhere near the top results of well-known fund managers on an absolute return basis.

Lack of volatility illusory

The apparent lack of volatility in the performance of the fund, Madoff says, is an illusion based on a review of the monthly and annual returns. On an intraday, intraweek and intramonth basis, he says, "the volatility is all over the place," with the fund down by as much as 1%.

But as whole, the split-strike conversion strategy is designed to work best in bull markets and, Madoff points out, until recently "we've really been in a bull market since '82, so this has been a good period to do this kind of stuff."

Market volatility, moreover, is the strategy's friend, says Madoff, as one of the fundamental ideas is to exercise the calls when the market spikes, which with the right stock picks would add to the performance.

In the current bearish environment, when some market experts think the fund should have been showing negative returns, albeit at levels below the benchmark index, managing the strategy has become more difficult, says Madoff, although performance has remained positive or, as in February, flat.

The worst market to operate in using the strategy, he adds, would be a protracted bear market or "a flat, dull market." In a stock market environment similar to what was experienced in the 1970s, for instance, the strategy would be lucky to return "T-bill like returns."

Market timing and stock picking are both important for the strategy to work, and to those who express aston- 18▶

◄17 ishment at the firm's ability in those areas, Madoff points to long experience, excellent technology that provides superb and low-cost execution capabilities, good proprietary stock and options pricing models, well-established infrastructure, market making ability and market intelligence derived from the massive amount of order flow it handles each day.

The strategy and trading, he says, are done mostly by signals from a proprietary "black box" system that allows for human intervention to take into account the "gut feel" of the firm's professionals. "I don't want to get on an airplane without a pilot in the seat," says Madoff. "I only trust the autopilot so much."

As for the specifics of how the firm manages risk and limits the market impact of moving so much capital in and out of positions, Madoff responds first by saying, "I'm not interested in educating the world on our strategy, and I won't get into the nuances of how we manage risk." He reiterates the undisputed strengths and advantages the firm's operations provide that make it possible.

Multiple stock baskets

Avoiding market impact by trading the underlying securities, he says, is one of the strategy's primary goals. This is done by creating a variety of stock baskets, sometimes as many as a dozen, with different weightings that allow positions to be taken or unwound slowly over a one- or two-week period.

Madoff says the baskets comprise the most highly capitalized liquid securities in the market, making the entry and exit strategies easier to manage.

He also stresses that the assets used for the strategy are often invested in Treasury securities as the firm waits for specific market opportunities. He won't reveal how much capital is required to be deployed at any given time to maintain the strategy's return characteristics, but does say that "the goal is to be 100% invested."

The inability of other firms to duplicate his firm's success with the strategy, says Madoff, is attributable, again, to its highly regarded operational infrastructure. He notes that one could make the same observation about many businesses, including market making firms.

Many major Wall Street broker-dealers, he observes, previously attempted to replicate established market making operations but gave up trying when they realized how difficult it was to do so successfully, opting instead to acquire them for hefty sums.

> "The strategy is the strategy and the returns are the returns"

[Indeed, says Madoff, the firm itself has received numerous buyout offers but has so far refused any entreaties because he and the many members of his immediate and extended family who work there continue to enjoy what they do and the independence it allows and have no desire to work for someone else.]

Similarly, he adds, another firm could duplicate the strategy in an attempt to get similar results, but its returns would likely be unmatched because "you need the physical plant and a large operation" to do it with equal success. However, many Wall Street firms, he says, do use the strategy in their proprietary trading activities, but they don't devote more capital to such operations because their return on capital is better used in other operations.

Setting up a proprietary trading operation strictly for the strategy, or a separate asset management division in order to collect the incentive fees, says Madoff, would conflict with his firm's primary business of market making.

Commissions suffice

"We're perfectly happy making the commissions" by trading for the funds, he says, which industry observers note also gives the firm the entirely legitimate opportunity to "piggyback" with proprietary trading that is given an advantage by knowing when and where orders are being placed.

Setting up a division to offer funds directly, says Madoff, is not an attractive proposition simply because he and the firm have no desire to get involved in the administration and marketing required for the effort, nor to deal with investors.

Many parts of the firm's operations could be similarly leveraged, he notes, but the firm generally believes in concentrating on its core strengths and not overextending itself. Overseeing the capital provided by the funds and its managed accounts, he says, provides another fairly stable stream of revenue that offers some degree of operational diversification.

Madoff readily dismisses speculation concerning the use of the capital as "pseudo equity" to support the firm's market making activities or provide leverage. He says the firm uses no leverage, and has more than enough capital to support its operations.

He notes that Madoff Securities has virtually no debt and at any given time no more than a few hundred million dollars of inventory.

Since the firm makes markets in only the most highly capitalized, liquid stocks generally represented by the S&P 500 index, a majority of which are listed on the NYSE, as well as the 200 most highly capitalized Nasdaq-listed stocks, says Madoff, it has almost no inventory risk.

Finally, Madoff calls ridiculous the conjecture that the firm at times provides subsidies generated by its market making activities to smooth out the returns of the funds in a symbiotic relationship related to its use of the capital as a debt or equity substitute. He agrees that the firm could easily borrow the money itself at a fairly low interest rate if it were needed, and would therefore have no reason to share its profits. "Why would we do that?"

Still, when the many expert skeptics were asked by MAR/Hedge to respond to the explanations about the funds, the strategy and the consistently low volatility returns, most continued to express bewilderment and indicated they were still grappling to understand how such results have been achieved for so long.

Madoff, who believes that he deserves "some credibility as a trader for 40 years," says: "The strategy is the strategy and the returns are the returns." He suggests that those who believe there is something more to it and are seeking an answer beyond that are wasting their time. ■

MADOFF_EXHIBITS-03647

Performance Statistics

Kingate Global Fund, Ltd. - USD Shares 1 1992 4 2003 136 months
S&P 500 DRI 1 1992 4 2003 136 months

	Fund	Index		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
				Net Returns											
Ann. Geometric Return %	13.89	9.34	**Year**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Avg. 12 Month Rolling %	14.30	11.50	**YTD Return %**	16.75	13.70	13.87	15.09	14.93	16.24	15.07	16.20	12.73	11.53	9.90	1.72
Geometric Monthly Return %	1.09	0.75	**Index YTD Return %**	7.62	10.06	1.30	37.55	22.96	33.35	28.56	21.01	-9.13	-11.92	-22.14	4.88
Std Dev %	3.22	14.94	**Max Loss %**	-0.51	-1.65	-0.71								-0.14	-0.58
Semi Dev %	2.16	11.29	**Jan**	0.36	1.40	2.67	1.70	1.68	3.18	0.99	2.43	2.58	2.49	-0.14	-0.48
Avg. Pos. %	1.21	3.49	**Feb**	2.94	1.12	-0.63	0.82	0.59	0.80	1.41	0.09	0.05	0.04	0.56	-0.10
Avg. Neg. %	-0.48	-3.58	**Mar**	-0.51	1.92	2.04	0.95	1.52	0.99	2.06	2.79	2.19	1.29	0.68	2.34
Mths Pos	127.00	85.00	**Apr**	2.65	-1.65	2.15	1.50	0.72	1.80	0.40	0.30	0.28	1.49	0.94	-0.03
Mths Neg	9.00	51.00	**May**	0.20	2.09	0.70	2.04	1.70	0.79	2.10	1.78	1.54	0.30	2.68	
% Pos Mths	93.38	62.50	**Jun**	0.84	0.96	0.33	0.51	0.24	1.57	1.48	2.09	0.91	0.18	0.23	
Largest Drawdown %	-1.65	-44.76	**Jul**	0.27	1.36	2.33	1.00	2.23	0.75	0.89	0.40	0.70	0.39	3.32	
Max Loss (mths)	2.00	4.00	**Aug**	0.26	2.95	0.36	0.12	0.20	0.46	0.30	1.04	1.49	1.13	0.37	
Sharpe Ratio	2.92	0.33	**Sep**	1.33	-0.03	0.78	2.14	1.45	2.06	1.06	0.77	0.17	0.75	0.11	
MAR-Ratio	8.42	0.21	**Oct**	3.32	2.04	2.24	1.81	1.30	0.54	2.27	1.23	1.03	1.47	0.74	
Value of $1,000	4,367.00	2,751.00	**Nov**	2.34	0.17	-0.71	0.54	1.94	1.82	0.89	1.87	0.74	1.30	0.03	
Correlation to Index	0.31		**Dec**	1.67	0.66	0.87	1.03	0.45	0.42	0.30	0.36	0.40	0.16	0.02	

Growth of Unit Investments | Monthly Returns | Histogram of Monthly Returns
Assets under Management | Rolling 12 Month Returns | Rolling 12 Month Correlation

Definitions/Formulas Used

Manager Information | Performance | Proprietary Information | Portfolio Exposure

Fund Information | Time Stamp

Performance Statistics

Fairfield Sentry Limited 7 1989 2 2003 164 months
S&P 500 DRI 7 1989 2 2003 164 months

	Fund	Index
Ann. Geometric Return %	14.12	9.81
Avg. 12 Month Rolling %	14.29	12.07
Geometric Monthly Return %	1.11	0.78
Std.Dev.%	2.94	15.13
Semi Dev %	1.87	11.28
Avg. Pos. %	1.16	3.60
Avg. Neg. %	-0.27	-3.49
Mths Pos	158.00	101.00
Mths Neg	6.00	63.00
% Pos Mths	96.34	61.59
Largest Drawdown %	-0.55	-44.76
Max Loss (mths)	1.00	5.00
Sharpe Ratio	3.07	0.31
MAR-Ratio	25.67	0.22
Value of $1,000	6,078.00	3,591.00
Correlation to Index	0.30	

Net Returns

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
YTD Return %	11.10	27.37	18.57	14.67	11.66	11.49	12.95	12.98	14.01	13.44	14.18	11.55	10.68	9.33	-0.23
Index YTD Return %	12.98	-3.14	30.45	7.62	10.06	1.30	37.55	22.96	33.35	28.56	21.01	-9.13	-11.92	-22.14	-4.10
Max Loss %				-0.19		-0.55	-0.16							-0.06	-0.27
Jan		0.60	3.08	0.49	0.00	2.18	0.92	1.49	2.45	0.91	2.06	2.20	2.21	0.03	-0.27
Feb		1.55	1.46	2.79	1.93	-0.36	0.76	0.73	0.73	1.29	0.17	0.20	0.14	0.60	0.04
Mar		2.60	0.58	1.01	1.86	1.52	0.84	1.23	0.86	1.75	2.29	1.84	1.13	0.46	
Apr		1.65	1.40	2.86	0.05	1.82	1.69	0.64	1.17	0.42	0.36	0.34	1.32	1.16	
May		1.56	1.88	-0.19	1.72	0.53	1.72	1.41	0.63	1.76	1.51	1.37	0.32	2.12	
Jun		3.00	0.37	1.29	0.86	0.27	0.50	0.22	1.34	1.28	1.76	0.80	0.23	0.26	
Jul	2.35	1.88	2.04	0.00	0.09	1.78	1.08	1.92	0.75	0.83	0.43	0.65	0.44	3.36	
Aug	0.63	3.13	1.07	0.92	1.78	0.42	-0.16	0.27	0.35	0.28	0.94	1.32	1.01	-0.06	
Sep	2.05	0.33	0.79	0.40	0.35	0.82	1.70	1.22	2.39	1.05	0.73	0.25	0.73	0.13	
Oct	0.75	1.60	2.82	1.40	1.77	1.88	1.60	1.10	0.56	1.95	1.11	0.92	1.28	0.73	
Nov	3.45	3.77	0.08	1.42	0.26	-0.55	0.51	1.57	1.56	0.84	1.61	0.68	1.21	0.16	
Dec	1.42	2.83	1.63	1.43	0.45	0.66	1.10	0.48	0.42	0.33	0.39	0.43	0.19	0.06	

Growth of Unit Investment | Monthly Returns | Histogram of Monthly Returns
Assets Under Management | Rolling 12 Month Returns | Rolling 12 Month Correlation

Definitions/Formulas Used

Manager Information	Performance	Proprietary Information	Portfolio Expertise
Fund Information	Firm Stamp		

Momentum Asset Management Limited

Market Master Fund

October 2002

(I) Fund Highlights

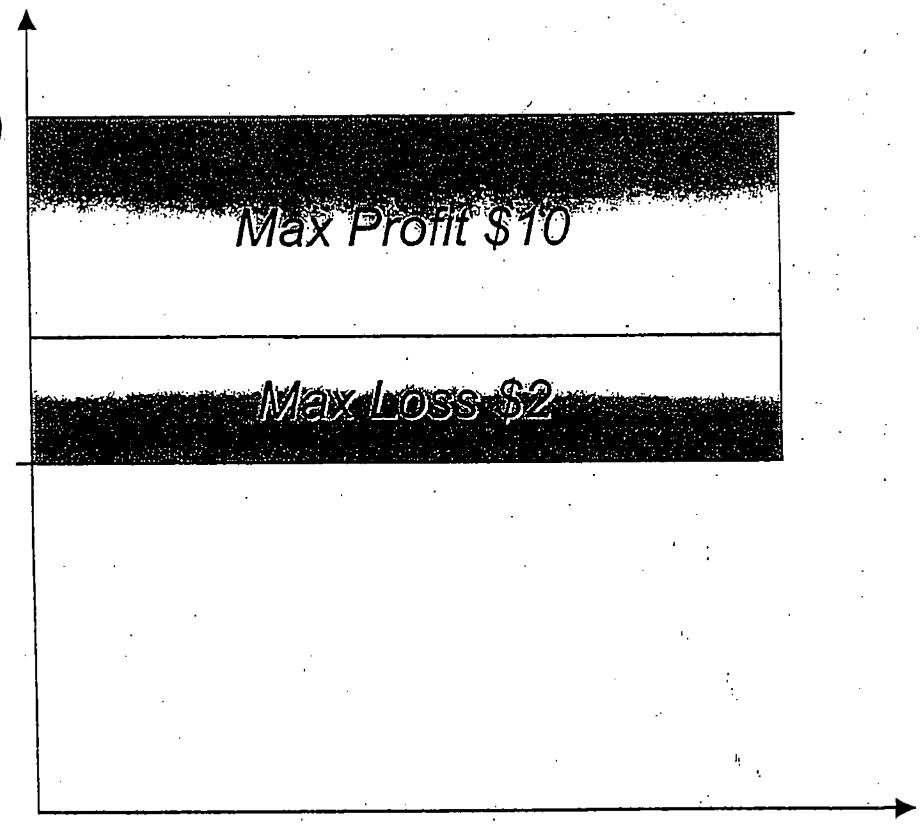
- Underlying manager has annualized at 11.5% since 1991
- Annual volatility 2.79%
- Sharpe ratio 2.356
- 90% of months profitable
- Largest losing month -0.72% (November 1994)
- Underlying manager ranks in top 1% of US securities firms
- Underlying fund over USD 3 billion
- Closed to new investors
- AllWeather fund allocates 5% of the assets to split-strike conversion strategy

Split price conversion

Sell Call option strike at $100

Buy IBM stock at $90

Buy Put option strike at $88



Call options

Call
IBM
@ $100
Expiry date 1st Dec 2002

Premium received $0.50

To sell a call option is to give someone the right to buy your stock at a predetermined strike price, before the expiry date.

In this way you receive premium for selling and to lock in the maximum selling price of your stock.

Put options

A put option is a contract that gives you the right to sell a particular stock (e.g. IBM) at a stated price (e.g. $88) before a particular time (e.g. 1st Dec 2002)

PUT
IBM
@ $88
Expiry date 1st
Dec 2002

Premium $0.40

MarketMaster Fund

30 September 2002 **Price : $ 106.73**

	1997	1998	1999	2000	2001	2002
Jan	2.64%	0.78%	2.07%	2.22%	2.18%	(0.22%)
Feb	0.60%	1.18%	(0.04%)	(0.04%)	(0.08%)	0.37%
Mar	0.77%	1.74%	2.37%	1.85%	1.04%	0.32%
Q1	4.05%	3.74%	4.45%	4.06%	3.16%	0.47%
Apr	1.32%	0.24%	0.16%	0.14%	1.24%	0.92%
May	0.54%	1.76%	1.48%	1.29%	0.14%	2.17%
Jun	1.29%	1.21%	1.76%	0.69%	0.04%	0.04%
Q2	3.18%	3.24%	3.42%	2.12%	1.42%	3.15%
Jul	0.58%	0.69%	0.25%	0.51%	0.25%	3.36%
Aug	0.24%	0.12%	0.82%	1.24%	0.90%	(0.13%)
Sep	2.05%	0.88%	0.58%	0.04%	0.57%	(0.08%)
Q3	2.89%	1.70%	1.66%	1.79%	1.73%	3.14%
Oct	0.39%	1.93%	1.00%	0.44%	1.21%	
Nov	1.52%	0.70%	1.57%	0.54%	1.09%	
Dec	0.25%	0.15%	0.21%	0.25%	0.01%	
Q4	2.18%	2.79%	2.80%	1.23%	2.31%	
Pro-forma data (see below)						
Total	**12.86%**	**11.97%**	**12.90%**	**9.51%**	**8.90%**	**6.89%**

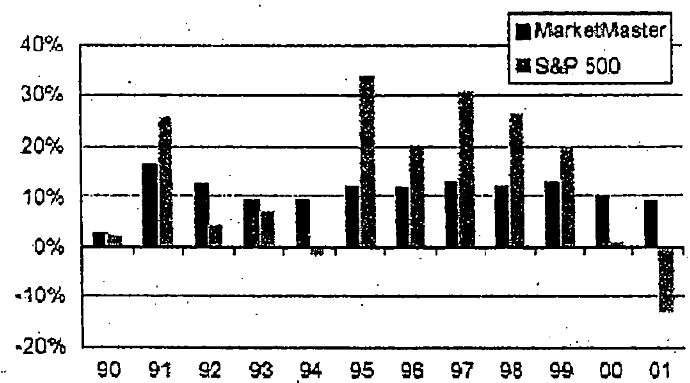
The Fund invests with "split strike conversion" managers who are selected for their level of expertise and performance, their complimentary strategies and degree of risk management focus. The Fund may include geographic exposure to Europe, Japan and the United States. The strategy incorporates long positions in a basket of top index stocks and the simultaneous purchase of near puts and sale of out-of-the-money call options. This low volatility Fund aims to achieve capital appreciation under all market conditions, and is structured to outperform its benchmark indices over full market cycles.

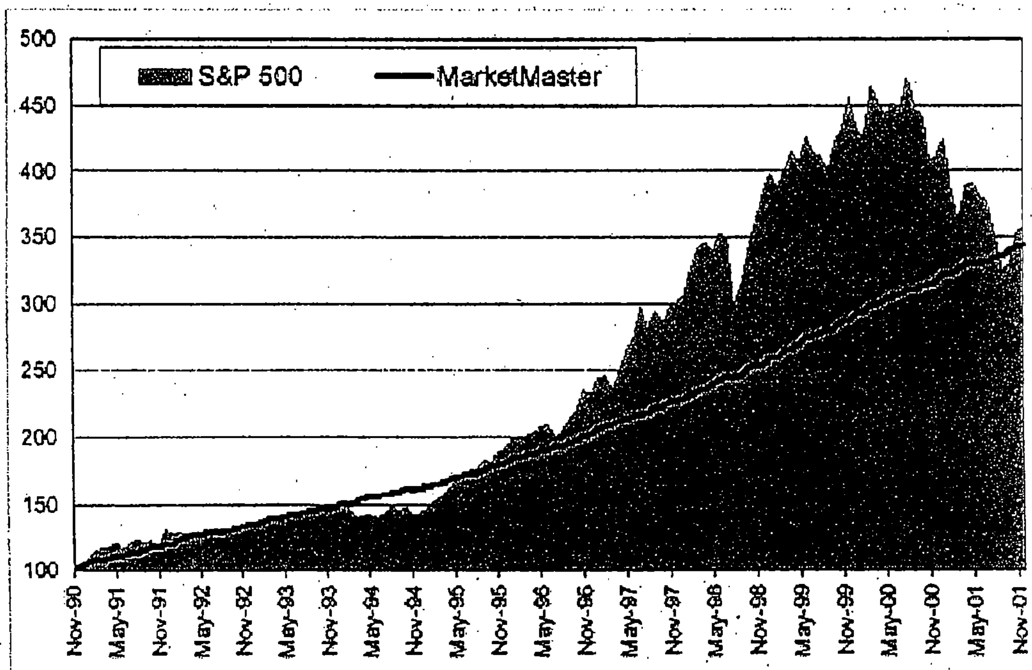
Launched : 1 March 2002	MarketMaster Fund	S&P 500 Index
Current Price	106.73	95.02
Annualized Return	11.57%	10.48%
Volatility	2.79%	14.71%
Sharpe Ratio	2.356	0.373
Correlation	0.35	
Maximum Losing Month	(0.72%)	(14.46%)
Maximum Drawdown	(0.72%)	(44.73%)
Average Monthly Return	0.92%	0.93%
% of Profitable Months	89.44%	64.08%
Average Gain	1.05%	3.45%
Average Loss	(0.20%)	(3.59%)
Max Gain	3.36%	11.44%

Latest Price Recorded On 30/09/2002

MarketMaster [Proforma]

	The Fund	S&P 500
Annualized Return:	11.76%	12.15%
Volatility:	2.69%	14.09%
Correlation:	0.41	N/A
Maximum Losing Month:	-0.72%	-14.58%
Maximum Drawdown:	-0.72%	-31.41%
% Profitable Months:	91%	66%



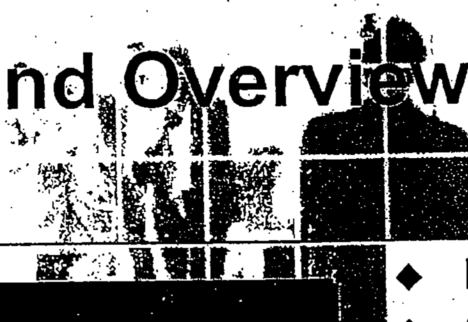


	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Jan		2.91%	0.32%	(-0.17%)	2.01%	1.14%	1.42%	2.64%	0.78%	2.07%	2.22%	2.18%
Feb		1.29%	2.62%	1.76%	(-0.53%)	0.62%	0.49%	0.60%	1.18%	(-0.04%)	(-0.04%)	(-0.08%)
Mar		0.41%	0.84%	1.71%	1.35%	0.73%	1.21%	0.77%	1.74%	2.37%	1.84%	1.04%
Apr		1.23%	2.69%	(-0.12%)	1.65%	1.43%	0.51%	1.32%	0.24%	0.16%	0.14%	1.24%
May		1.71%	(-0.36%)	1.55%	0.36%	1.71%	1.39%	0.54%	1.76%	1.48%	1.29%	0.14%
Jun		0.20%	1.12%	0.71%	0.10%	0.34%	0.06%	1.29%	1.21%	1.76%	0.69%	0.04%
Jul		1.87%	(-0.17%)	(-0.08%)	1.61%	0.87%	1.90%	0.58%	0.69%	0.25%	0.51%	0.25%
Aug		0.90%	0.75%	1.61%	0.25%	(-0.20%)	0.07%	0.24%	0.12%	0.82%	1.24%	0.90%
Sep		0.62%	0.23%	0.18%	0.65%	1.76%	1.17%	2.05%	0.88%	0.58%	0.04%	0.57%
Oct		2.65%	1.23%	1.60%	1.71%	1.64%	1.03%	0.39%	1.93%	1.00%	0.81%	1.21%
Nov		(-0.09%)	1.26%	0.09%	(-0.72%)	0.36%	1.59%	1.52%	0.70%	1.57%	0.54%	1.09%
Dec	2.67%	1.66%	1.26%	0.28%	0.49%	0.90%	0.30%	0.25%	0.15%	0.21%	0.25%	0.01%
	2.67%	16.45%	12.40%	9.49%	9.28%	11.86%	11.69%	12.86%	11.97%	12.90%	9.91%	8.90%

Manager's edge

- An exquisite sense of timing, as to when to initiate and de-activate the strategy
- Knowledge, experience and skill in strategy application
- Access to real time order flows
- Ability to quickly respond to identified opportunities
- A low cost base
- Low risk strategy
  - Strategy creates a set of known possible outcomes until the maturity of the options
  - Strategy has defined risk and profit parameters

Fund Overview



Structure

- Bermuda domiciled mutual fund
- Open ended
- Fund size : US$13.3 million
- Minimum investment size: US$25,000

Investment Objectives

- Achieve capital appreciation under all market conditions and outperform the benchmark over a full business cycle
- Reduce correlation to capital markets
- Low volatility

Investment Strategy

- Invest with "split price conversion" managers who are selected for their level of expertise and performance and their degree of risk management focus
- Invest in long positions in top index stocks with the simultaneous purchase of near puts and sale of out-of-the-money call options
- Mostly in US but can invest in Europe and Japan

Investment Manager

- Momentum Asset Management Limited, a wholly-owned subsidiary of Momentum Holdings Ltd

Fund Overview (con't)

Fees

- Investment management fees : 2%
- No performance fees

Leverage Capability

- May borrow up to 25% NAV
- Short-term basis to meet expenses or redemptions

NAV Publication

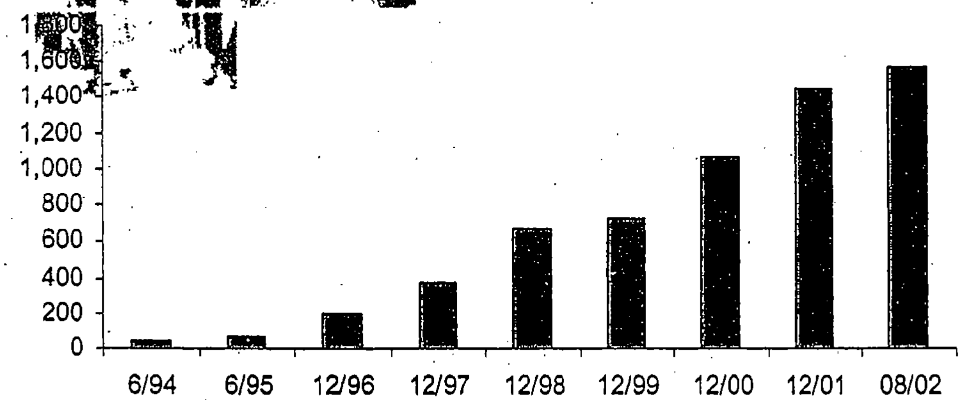
- Monthly

Redemption Process

- Redemption Day: 1 Jan, 1 Apr, 1 Jul and 1 Oct
- Notice Period: Not less than 35 days written notice
- Price: NAV at last Valuation Day
- Payment: 30 days after Redemption Day

(II) The Momentum Group: History and Development

Total Assets Under Management (US$m)



- 52 funds with US$1.5 billion in assets under management
- 3 different fund groups:
  - low volatility strategies with limited market correlation (target return: 10-15% p.a.);
  - active growth strategies using hedged equity strategies typically with a regional bias (target return: 15-20% p.a.); and
  - aggressive strategies (target: 20%+ p.a.) usually global macro or sector specific

1986
- Distribution of guaranteed and bond-backed alternative investment funds and managed futures products

1988
- Broadened the range of hedge fund strategies included in client's portfolios

1992
- Converted client hedge fund portfolios into Bermuda-based hedge funds
- First funds established: AssetMaster and StockMaster

Today

Momentum Group: Experienced Investment Managers

Core members have over 15 years of hedge fund experience each, and have worked together as a single team for more than 10 years

Michael Goldman 1986

- Over 15 years of experience
- Chief Executive Officer of Momentum UK Limited
- Responsible for manager selection and asset allocation

Matthew Nurick 1986

- Over 15 years of experience
- Chairman of Investment Committee
- Responsible for manager selection and asset allocation

Mark Barker 1986

- Over 15 years of experience
- Responsible for joint venture product development
- Active member risk and portfolio management team

Gregory Knott 1989

- Over 10 years of experience
- Active member of risk and portfolio management team

Momentum Group: Investment Philosophy

Top Down Approach
- Macro picture and global economy sets out strategy allocations

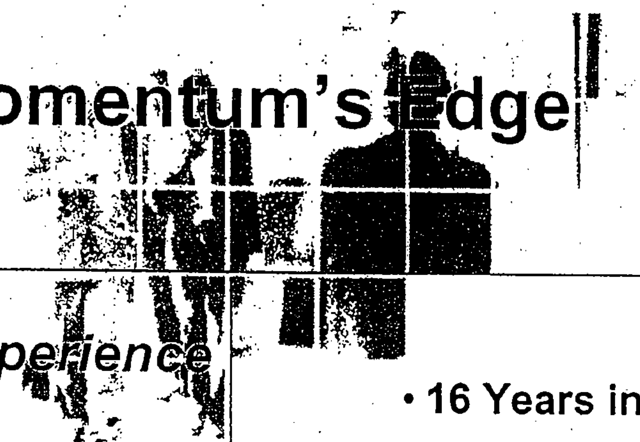
Bottom Up Analysis
- Stringent due diligence defines manager allocations

Qualitative Analysis Bias
- Fundamental analysis ultimately determines investment decision
- Quantitative analysis used primarily as a negative screen

Longevity
- Favor advisors with long-term track record
- Create long-term relationships with underlying managers

Withstand "Event Risk"
- Unforeseen risk is the most significant risk to the portfolio
- Choose managers who use either moderate or no leverage
- Diversify across a number of uncorrelated strategies and managers

Momentum's Edge



Experience

- 16 Years investing in alternative investments
- The core portfolio management team have all worked within the alternative investment industry since 1985
- A deep understanding of the risks employed by practitioners of alternative investment strategies
- Momentum have witnessed the major dislocations of 1987, 1994 and 1998 – and how they affected alternative strategies

Momentum Group: Fund Range

AllWeather	◆ Absolute return funds targeting 10 to 15% annualised returns with low volatility and low market correlation. Multi and single strategy funds are included in the umbrella fund.
Orbit	◆ Equity linked strategies targeting capital appreciation in rising markets with limited downside participation in falling markets. The Orbit range includes a global, US and European portfolio and is ranked as moderately aggressive.
Meteor	◆ Aggressive funds targeting high returns with market volatility. The range includes sector and region specific funds as well as global macro funds.
Structured Notes	◆ AA and AAA rated notes are structured for institutional, corporate and high net worth individuals, linked to a range of AllWeather strategies.

(III) Summary

Predictable returns from stable strategy	Predictable strategy with defined risk and reward parameters Long term equity returns with modest volatility Down side protection through put options
Access to Fund Managers	◆ Exposure to specialist equity market neutral strategy ◆ Access to quality hedge funds typically closed for new money
Skilled Investment Manager	◆ Over 16 years of hedge fund experience ◆ In-depth knowledge of how strategies and manager perform and interact under different economic conditions ◆ Rigorous investment process ◆ Proven track record