[redacted]

Subject: [redacted]
From: [redacted]
Date: Thu, 13 Nov 2003 16:12:32 -0800
To: [redacted]

Committee members,

We at [redacted] are concerned about our [redacted] investment. First of all, we spoke to an ex-Madoff trader (who was applying for a position at [redacted] and he said that Madoff cherry-picks trades and "takes them for the hedge fund". He said Madoff is pretty tight-lipped and therefore he didn't know much about it, but he didn't really know how they made money [redacted] heard a similar story from from a large hedge fund consultant who also interviewed an ex-trader. The head of this well-respected group told us in confidence that he believes that Madoff will have a serious problem within a year. We are going to be speaking to him in 11 days to see if we can get more specifics.

Another point to make here is that not only are we unsure as to how [redacted] makes money for us, we are even more unsure as to how [redacted] makes money from us; i.e. why does he let us make so much money? Why doesn't he capture that for himself? There could well be a legitimate reason, but I haven't heard any explanation we can be sure of. Additionally, there is a $4 billion Madoff pass-through fund (Fairfield Sentry) that charges 0 and 20% and it's not clear why Madoff allows an outside group to make $100 million per year in fees for doing absolutely nothing (unless he gets a piece of that). The point is that as we don't know why he does what he does we have no idea if there are conflicts in his business that could come to some regulator's attention. Throw in that his brother-in-law is his auditor and his son is also high up in the organization (imagine that!) and you have the risk of some nasty allegations, the freezing of accounts, etc., etc. To put things in perspective, if [redacted] went to zero it would take out 80% of this year's profits.

Perhaps the best reason to get out is that we really don't expect to make an outsized return on this investment. Sure it's the best risk-adjusted fund in the portfolio, but on an absolute return basis it's not that compelling (12.16% average return over last three years). If one assumes that there's more risk than the standard deviation would indicate, the investment loses it's luster in a hurry.

It's high season on money managers, and Madoff's head would look pretty good above Elliot Spitzer's mantle. I propose that unless we can figure out a way to get comfortable with the regulatory tail risk in a hurry, we get out. The risk-reward on this bet is not in our favor.

Please keep this confidential.

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DIVISION EXHIBIT

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