EXHIBIT 2
December 10, 2008

PERSONAL & CONFIDENTIAL - BY HAND

Bernard L. Madoff Investment Securities LLC
885 Third Avenue
New York, NY 10022
Attn: Mr. Bernard L. Madoff

Dear Bernie,

Further to our telephone conversation of December 8, 2008, I thought it appropriate to send you this note.

We fully understand the frustration of your traders in this unique time. The deleveraging in the world is far greater than it has ever been. Unfortunately, the redemptions in our industry since the bankruptcy of Lehman are not based on performance or value. Rather, it is our belief that these redemptions are panic-driven runs on liquid investments. No more glaring example of this is Sentry's 2008 outperformance of the market and its rivals.

Based on our nearly 20 years of experience with you and Sentry, through a number of cycles, we fully expect the capital to be replenished and grow substantially. While we cannot anticipate when the tide will turn, redemptions will slow, we can tell you of several steps we will take as a firm and other steps we would consider taking with you.

1. Sentry can establish different classes of shares with less frequent redemption dates. Clients investing in a class with quarterly liquidity would pay a lower fee than those in the monthly class. An annual liquidity class with even lower fees could also be offered. These changes could be implemented effective as early as April 1, 2009.

2. Alternatively, you might consider requiring all of the split strike accounts, which are pools or funds, to agree to change to quarterly redemptions effective April 1, 2009. We would strongly support such a change. In our opinion, quarterly liquidity is perfectly justified given the outflows during periods of
outperformance. While we would expect to initially see further redemptions if the fund changed to quarterly liquidity, we would expect to recoup such redemptions over time and have a more stable fund for your traders.

3. We have taken a number of steps with our other funds in order to put all of our investable capital in Sentry and the new split strike strategy which we call Emerald. While the full results of this strategy will take a few months to take effect, they will include:

- investments in Sentry by existing Fairfield funds (~$100mm)
- liquidating other Fairfield funds and transferring the assets to Sentry and Emerald (up-to ~$200mm)
- purchases by the firm of Sentry positions from clients rather than having them redeem from Sentry (~$150mm)
- investments by individual partners of the firm in Sentry and Emerald (~$50mm)
- new UCIIS III fund, launch Feb 2009 (target ~$500mm in 12 months)

4. We are aggressively cutting effective fees for new subscriptions through offering significant fee-sharing incentives to our clients, agents and finders.

Additionally, we would like to address your concerns regarding our ability to raise assets for the new strategy, Emerald, that we first discussed exactly one month ago. Per our discussions, we have limited the offering to a select number of discreet investors and have required all of these potential investors to sign non-disclosure agreements before they receive any written materials on Emerald. Also, to avoid having other split strike funds approach you with concerns about Fairfield’s offering of Emerald, we have structured the offering so that our Swiss private bank affiliate is manager of the Emerald fund and Fairfield’s advisory entities are not involved with Emerald. Despite these obstacles, combined with the difficult environment we are in, we have raised over $60 million since we have began working on this exciting opportunity and we believe that most, if not all, of the $500 million will be raised in the first half of 2009. Enclosed please find copies of the Emerald non-disclosure agreement and the Emerald private placement memorandum.

Finally, we apologize for failing to keep you informed of pending redemptions in a timely manner. We will strive to improve communications between our firms through more frequent reporting of redemptions and subscriptions as received.

Our firm is very dependent on its relationship with your firm. You are our most important business partner and an immensely respected friend. As a firm, we are prepared to commit to dedicating ourselves exclusively to Sentry and Emerald. Throughout 2009, we will engage in no other fund-raising initiatives. Our mission is to remain in business with you and to keep your trust.
Andres, Walter and I would like to come and speak with you in person. All three of us will be available to meet with you at any time next week. If more convenient for you, Walter and I are available to come over this week. I will follow-up by telephone to arrange the meeting.

Best regards,

[Signature]

Jeffrey Tucker

encl.
EXHIBIT 3
STRATEGY DESCRIPTION

The Fund seeks to obtain capital appreciation of its assets principally through the utilization of a nontraditional options trading strategy described as "split strike conversion," to which the Fund allocates the predominant portion of its assets. The investment strategy has defined risk and reward parameters. The establishment of a typical position entails (i) the purchase of a group or basket of equity securities that are intended to highly correlate to the S&P 100 Index, (ii) the purchase of out-of-the-money S&P 100 Index put options with a notional value that approximately equals the market value of the basket of equity securities and (iii) the sale of out-of-the-money S&P 100 Index call options with a notional value that approximately equals the market value of the basket of equity securities. The basket typically consists of between 40 to 60 stocks in the S&P 100 Index. The primary purpose of the long put options is to limit the market risk of the stock basket at the strike price of the long puts. The primary purpose of the short call options is to largely finance the cost of the put hedge and to increase the stand-still rate of return. The "split strike conversion" strategy is implemented by Bernard L. Madoff Investment Securities LLC ("BLM"), a broker-dealer registered with the Securities and Exchange Commission, through accounts maintained by the Fund at that firm. The services of BLM and its personnel are essential to the continued operation of the Fund, and its profitability, if any. The Investment Manager, in its sole and exclusive discretion, may allocate a portion of the Fund's assets (never to exceed, in the aggregate, 5% of the Fund's Net Asset Value, measured at the time of investment) to alternative investment opportunities other than its "split strike conversion" investments.

HIGHLIGHTS

- Seventeen year track record
- Only 16 down months since inception
- Provides long term capital appreciation by delivering short-term gains
- Excellent risk adjusted return
- Market timing strategy
- Highly hedged portfolio

FUND PERFORMANCE

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>0.65%</td>
<td>0.06%</td>
<td>0.18%</td>
<td>0.83%</td>
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<td>-0.08%</td>
<td>0.72%</td>
<td>0.71%</td>
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<tr>
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<td>0.81%</td>
<td>0.34%</td>
<td>0.17%</td>
<td>0.31%</td>
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ANALYTICS

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<th>S&amp;P 100 DRI</th>
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<td>Compound Annual Returns</td>
<td>10.84%</td>
<td>8.22%</td>
<td>6.68%</td>
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<tr>
<td>YTD Compound Returns</td>
<td>4.50%</td>
<td>-30.84%</td>
<td>-1.73%</td>
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<td>Annual Standard Deviation</td>
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<td>Months To Recover</td>
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<td>Percentage Up Months</td>
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<tr>
<td>NAV</td>
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MONTHLY RETURN DISTRIBUTION

Confidential Treatment Requested by Fairfield Greenwich Limited
FAI 00005749
FAIRFIELD GREENWICH GROUP

Founded in 1983, Fairfield Greenwich Group's ('FGG'), mission is to offer its clients superior alternative asset management funds and related products. Throughout its history, FGG has internally managed its own hedge funds and selectively identified external managers for strategic affiliations. For risk monitoring purposes, FGG obtains portfolio transparency from all managers which are included in its multi-strategy funds. We seek to align our interests more fully with those of our clients by investing a significant portion of our own shareholders' capital in our management. FGG has approximately USD $16.2 billion in client and firm assets under management. It is an employee owned firm with over 120 employees, 23 of whom are shareholders, and has offices in New York, London, and Bermuda, and representative offices in the U.S., Europe, and Latin America. FGG-related funds have over 900 registered shareholders, including private banks, financial advisors, family offices, pension funds, government authorities, and institutional investors. FGG entities are registered with the U.S. SEC as an investment advisor and broker dealer, and with the U.K. Financial Services Authority as an Investment Manager.

IMPORTANT NOTICE

Fund performance is not of a 1% annual management fee and a 20% performance fee. Past performance is not a guarantee of future results. Effective October 1, 2004, Fairfield Sentry Limited began charging investors a 1% management fee plus a 20% performance fee. Returns prior to October 2004 have been restated to reflect the current fee structure. All performance records portray the reinvestment of dividends, gains and other earnings. The Index Information is included merely to show the general trend in applicable markets in the periods indicated and is not intended to imply that the Fund was similar to the Index either in composition or element of risk. It is not possible to invest directly in an Index. The S&P 100 Index is a capitalization-weighted Index based on 100 highly capitalized stocks for which options are listed and dividends are reinvested. The Lehman Brothers Aggregate Bond Index is a benchmark index made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. This document does not constitute an offering of any security, product, service or fund, including interests in the Fund, for which an offer can only be made to qualified investors by the Fund's confidential Private Placement Memorandum (the 'PPM'). It is for informational purposes only and may not be relied upon by you in evaluating the merits of investing in the Fund. It is qualified in its entirety by the PPM and no offering of interests in the Fund may be made by any literature, advertising, or document in whatever form other than the PPM, which may qualify, and differ from, the information and opinions contained herein. The PPM contains important information regarding the Fund's investment objectives, risks, fees, and other matters of interest and should be carefully read prior to any investment in the Fund. There are no assurances that the stated investment objectives of the Fund will be met. The purchase of interests in the Fund is suitable only for sophisticated investors for whom an investment in the Fund does not constitute a complete investment program and who fully understand and are willing to assume the risks involved in the Fund's investment program. The interests described herein will not be registered under the laws of any jurisdiction including the United States Securities Act of 1933 or the United States Investment Company Act of 1940, the laws of any state of the United States or the laws of any foreign jurisdiction and may not be offered or sold without compliance to applicable securities laws. Hedge funds (or funds of hedge funds): Often engage in leveraging and other speculative investment practices that may increase the risk of investment loss; Can be highly illiquid; Are not required to provide periodic pricing or valuation information to investors; May involve complex tax structures and delays in distributing important tax information; Are not subject to the same regulatory requirements as registered investment companies; and Often charge high fees. An investor could lose all or substantially all of his or her investment. Where securities are issued in a currency other than the investors' currency of reference, changes in exchange rates may have an adverse effect on the value of the investment. Further, any number of conflicts of interest may exist in the context of the management and/or operation of any hedge fund. Securities are distributed by Fairfield Greenwich Limited, the fund's placement agent, and its subsidiaries, or through external unaffiliated agents: In the United States, Fairfield Greenwich Group representatives offer securities through Fairfield Heathcote Capital LLC, a broker-dealer and member FINRA and SIPC. Investment advisory services are offered by Fairfield Greenwich (Bermuda) Ltd. and an affiliate. In the EU, Fairfield Greenwich Group representatives offer securities through Fairfield Greenwich (UK) Limited, which is authorized and regulated by the Financial Services Authority (FSA). In Singapore, securities and investment advisory services are offered through Lion Fairfield Capital Management Ltd., which has notified the Monetary Authority of Singapore of its commencement of business. The Fund is not recognized as a collective investment scheme for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom (the "Act"). This information is directed only to persons to whom such investment funds may lawfully be promoted by a person authorised under the Act (an "authorised person") by virtue of Section 238(5) of the Act and Annex 6 to Chapter 3 of the FSA Conduct of Business Sourcebook. Shares in the Fund are only available to such persons. This information must not be relied or acted upon by any other persons. Investors in the Fund will not benefit from the rules and regulations made under the Act for the protection of investors, nor from the Financial Services Compensation Scheme. Shares in the Fund are not dealt in or recognised as a designated investment exchange for the purposes of the Act, nor is there a market maker in such shares, and it may therefore be difficult for an investor to dispose of his shares otherwise than by way of redemption. This information is provided to persons who: a) have declared to be qualified investors pursuant to art. 10 par. 3 of the Collective Investment Schemes Act (CISA); or b) have declared to accept it exclusively on behalf of one or more qualified investors whom this information is exclusively meant for. In particular, the person being represented is a wealthy private person pursuant to art. 10 par. 3 letter (c).
STRATEGY DESCRIPTION
Fairfield Sigma Limited invests its assets principally into Fairfield Sentry Limited, and utilizes some assets to hedge the dollar exposure of its investment in Sentry into Euros. The Fund seeks to obtain capital appreciation of its assets principally through the utilization of a non-traditional options trading strategy described as “split strike conversion,” to which the Fund allocates the predominant portion of its assets. The investment strategy has defined risk and reward parameters. The establishment of a typical position entails (i) the purchase of a group or basket of equity securities that are intended to highly correlate to the S&P 100 index, (ii) the purchase of out-of-the-money S&P 100 Index put options with a notional value that approximately equals the market value of the basket of equity securities and (iii) the sale of out-of-the-money S&P 100 Index call options with a notional value that approximately equals the market value of the basket of equity securities. The basket typically consists of between 40 to 80 stocks in the S&P 100 Index. The primary purpose of the long put options is to limit the market risk of the stock basket at the strike price of the long puts. The primary purpose of the short call options is to largely finance the cost of the put hedge and to increase the standstill rate of return. The “split strike conversion” strategy is implemented by Bernard L. Madoff Investment Securities LLC (“BLM”), a broker-dealer registered with the Securities and Exchange Commission, through accounts maintained by the Fund at that firm. The earnings of BLM and its personnel are essential to the continued operation of the Fund, and its profitability, if any. The Investment Manager, in its sole and exclusive discretion, may allocate a portion of the Fund's assets (never to exceed, in the aggregate, 6% of the Fund's Net Asset Value, measured at the time of investment) to alternative investment opportunities other than its “split strike conversion” investments.

HIGHLIGHTS
- Eight year track record
- Only seven down months since inception
- Provides long term capital appreciation by delivering short-term gains
- Excellent risk adjusted return
- Market timing investment strategy
- Highly hedged portfolio

FUND PERFORMANCE

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<td>0.76%</td>
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<td>0.36%</td>
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<td>1.32%</td>
<td>0.01%</td>
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ANALYTICS

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<tr>
<th>Compound Annual Returns</th>
<th>Fund</th>
<th>S&amp;P 100 Index</th>
<th>Lehman Avg.</th>
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<tbody>
<tr>
<td>YTD Compound Returns</td>
<td>3.04%</td>
<td>-30.84%</td>
<td>-17.3%</td>
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<tr>
<td>Annual Standard Deviation</td>
<td>1.59%</td>
<td>16.40%</td>
<td>3.86%</td>
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<tr>
<td>Correlation</td>
<td>NA</td>
<td>0.18</td>
<td>-0.24</td>
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<tr>
<td>Sharpe Ratio</td>
<td>2.08</td>
<td>-0.46</td>
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<tr>
<td>Worst Drawdown</td>
<td>-0.56%</td>
<td>-40.57%</td>
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<td>Months To Reactivate</td>
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<td>Percentage Up Months</td>
<td>93.40%</td>
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<tr>
<td>NAV</td>
<td>€ 194.74</td>
<td></td>
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<tr>
<td>Fund Assets</td>
<td>€ 767.0 million</td>
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MONTHLY RETURN DISTRIBUTION

| Frequency |
| 90 |
| 30 |
| 20 |
| 10 |
| 0 |

RETURN (%)

<table>
<thead>
<tr>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
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<tr>
<td>2008</td>
<td>0.53%</td>
<td>0.11%</td>
<td>0.28%</td>
<td>1.01%</td>
<td>0.62%</td>
<td>0.04%</td>
<td>0.86%</td>
<td>0.20%</td>
<td>0.88%</td>
<td>0.65%</td>
<td>0.86%</td>
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<tr>
<td>2007</td>
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<td>1.46%</td>
<td>0.80%</td>
<td>0.87%</td>
<td>0.22%</td>
<td>0.00%</td>
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<td>0.76%</td>
<td>0.36%</td>
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<td>0.04%</td>
<td>1.06%</td>
<td>0.70%</td>
<td>0.44%</td>
<td>0.31%</td>
<td>0.82%</td>
<td>0.31%</td>
<td>0.47%</td>
<td>0.24%</td>
<td>0.65%</td>
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<tr>
<td>2005</td>
<td>0.46%</td>
<td>0.30%</td>
<td>0.76%</td>
<td>0.05%</td>
<td>0.35%</td>
<td>0.36%</td>
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<td>0.01%</td>
<td>0.73%</td>
<td>0.46%</td>
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TERMS AND CONDITIONS

Investment Manager: Fairfield Greenwich (Bermuda) Ltd.
Management: 1% Performance: 20%
Minimum Investment: € 100,000
Subscriptions: Monthly
Redemptions: Monthly, with 15 days' notice

FAI 00005752
FAIRFIELD GREENWICH GROUP

Founded in 1983, Fairfield Greenwich Group’s ("FGG"), mission is to offer its clients superior alternative asset management funds and related products. Throughout its history, FGG has sensitively managed its own hedge funds and selectively identified external managers for strategic affiliations. For risk monitoring purposes, FGG obtains portfolio transparency from all managers which are included in its multi-strategy funds. We seek to align our interests more fully with those of our clients by investing a significant portion of our own shareholders' capital with our managers. FGG has approximately USD $16.2 billion in client and firm assets under management. It is an employee owned firm with over 120 employees, 23 of whom are shareholders, and has offices in New York, London, and Bermuda, and representative offices in the U.S., Europe, and Latin America. FGG-related funds have over 900 registered shareholders, including private banks, financial advisors, family offices, pension funds, government authorities, and Institutional Investors. FGG entities are registered with the U.S. SEC as an investment advisor and broker-dealer, and with the U.K. Financial Services Authority as an Investment Manager.

IMPORTANT NOTICE

Fees are 0% management and 0% performance of Fairfield Sigma, the Euro feeder fund for Fairfield Sentry. The fees noted are of Fairfield Sentry. Effective October 1, 2004, Fairfield Sentry Limited began charging investors a 1% management fee plus a 30% performance fee. Returns prior to October 2004 have been restated to reflect the current fee structure. Past performance is not a guarantee of future results. All performance results portrayed reflect the reinvestment of dividends, gains and other earnings. The index information is included merely to show the general trend in applicable markets in the periods indicated and is not intended to imply that the Fund was similar in the Index either in composition or element of risk. It is not possible to invest directly in an Index. The S&P 500 Index is a capitalization-weighted Index based on 100 highly capitalized stocks for which options are listed and dividends are reinvested. The Lehman Brothers Aggregate Index is a benchmark index made up of the Lehman Brothers Government/Corporate Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities and 20% of Investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. This document does not constitute an offering of any security, product, service or fund, including interests in the Fund, for which an offer can only be made to qualified investors by the Fund’s confidential Private Placement Memorandum (the "PPM"). It is for informational purposes only and may not be relied upon in your evaluating the merits of investing in the Fund. It is qualified in its entirety by the PPM and no offering of interests in the Fund may be made by any literature, advertising, or document in whatever form other than the PPM, which may qualify, and differ from, the information and opinions contained herein. The PPM contains important information regarding the Fund’s investment objectives, risks, fees, and other matters of interest and should be fully read prior to any investment in the Fund. There are no assurances that the stated investment objectives of the Fund will be met. The purchase of interests in the Fund is suitable only for sophisticated investors for whom an investment in the Fund does not constitute a complete investment program and who fully understand and are willing to assume the risks involved in the Fund’s investment program. The interest described herein will not be registered under the laws of any jurisdiction including the United States Securities Act of 1933 or the United States Investment Company Act of 1940, the laws of any state of the United States or the laws of any foreign jurisdiction and may not be offered or sold without compliance to applicable securities laws. Hedge funds (or funds of hedge funds): Often engage in leveraging and other speculative investment practices that may increase the risk of investment loss; Can be highly liquid; Are not required to provide periodic pricing or valuation information to investors; May involve complex tax structures and may distribute important tax information not addressed in the regulatory requirements as registered investment companies; and Often charge high fees. An investor could lose all or substantially all of his or her investment. Where securities are issued in a currency other than the investor’s currency of reference, changes in exchange rates may have an adverse effect on the value of the investment. Further, any number of conflicts of interest may exist in the context of the management and/or operation of any hedge fund. Securities are distributed by Fairfield Greenwich Limited, the Fund’s placement agent and its subsidiaries. In the United States, securities are offered through Fairfield Hawthorn Capital LLC, a broker-dealer and member FINRA and SIPC. Investment advisory services are offered by Fairfield Greenwich Advisors, LLC and Fairfield Greenwich (Bermuda) Ltd. In the EU, securities and investment advisory services are offered through Fairfield Greenwich (UK) Limited, 10 Cork Street, London W1S 3NP (Company Number 3440032) which is authorized and regulated by the Financial Services Authority (FSA), and which has approved this document for publication in the UK. In Singapore, securities and investment advisory services are offered through Lion Capital Management Limited, which holds a capital markets services license issued by the Monetary Authority of Singapore under the provisions of the Securities and Futures Act (Cap 289). The Fund is not recognized as a collective investment scheme for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). The prospectus is directed only at persons to whom such investment is directed only to persons who are qualified investors as defined under the Act (an "authorized person") by virtue of Section 238(6) of the Act and Annex 5 to Chapter 5 of the FSA Code of Conduct of Business Sourcebook ("Codic""); or to eligible persons to whom the information is exclusively meant for. In particular, the person being represented is a wealthy private person pursuant to art. 10 par. 3 letter (d) of the CISA, or is a qualified investor according to art. 10 par. 3 letter (b) CISA or to art. 8 par. 2 of the Collective Investment Schemes Ordinance. For no reason whatsoever, therefore, is information for less sophisticated, unsophisticated investors obtained or made available to a person who is not a CISA. Confidential information is not reproduced or distributed without the prior written consent of Fairfield Greenwich Group. Fairfield Greenwich Group is the marketing name for the brokerage and investment advisory businesses of Fairfield Greenwich Limited and its affiliates worldwide. Additional information is available upon request.

Confidential Treatment Requested by Fairfield Greenwich Limited
EXHIBIT 4
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Executive Summary

With over 9,000 hedge funds – managing more than $1.6 trillion of assets – to choose from, sophisticated investors have been presented with an increasingly complex array of choices when trying to select investment managers. Many recent entrants to the hedge fund arena have dropped out after only a year or two, owing to poor performance in challenging markets or because they lack portfolio or business management skills (as compared to trading skills). Even well established management firms have experienced fund “blow ups” despite the assurances they provided to investors that they were effective risk managers. Upon investigation, faulty or incomplete due diligence by investors or their advisors, and lack of regular and comprehensive follow-up risk monitoring are often revealed as the reasons why they were not aware of and/or did not react to risks or behavior that eventually became the cause of a fund’s unexpectedly high level of losses.

FGG employs an in-depth, multi-faceted due diligence and risk monitoring process which is designed to uncover these risk issues. One of FGG’s businesses has involved the development of a limited number of close relationships with hedge fund managers of varying investment methodologies, either internal or external to FGG, but each adhering to a capital preservation philosophy. For FGG to be successful in its approach, it must deploy an adequate level of resources, per manager, to the due diligence and ongoing risk monitoring process. In examining any manager, FGG conducts detailed analysis of such important issues as liquidity management, market and credit risks, management quality, and operational, compliance, and regulatory risks, to name a few. At FGG this work is performed by experienced professionals from a variety of disciplines – individuals not only knowledgeable in the underlying strategy and positions, but also intimately familiar with the business, operational, and legal aspects of running a hedge fund firm. Insights gained during the due diligence process are tested and confirmed on a continuing basis by the ongoing monitoring of the manager’s activities.

FGG’s business model enables the firm to have privileged access to all aspects of a manager’s operation and investment process, including security level transparency which is employed on a confidential basis. Only by receiving full transparency from its managers can FGG assure itself and its clients that every FGG fund continues to act according to the principles, agreements, and strategies that are specified to FGG and investors.
FGG's Due Diligence Process

The Manager Selection and Due Diligence Process

1. Sourcing and Initial Assessment

In the course of each year, FGG is introduced to several hundred potential managers who come to our attention through our extensive network of colleagues, direct contacts, and referrals. As our reputation has grown over the years, we have also become very successful in originating manager referrals through reverse inquiry. The 20+ year history of our firm, the experience and relationships built up by our team in the industry, our large and steadily growing asset and client base, and our increasing global visibility make FGG an increasingly attractive partner for many top hedge fund managers. A relevant subset of these leads are pursued and background information on promising potential relationships is collected and shared among FGG's professionals for initial assessment.

While some fund of funds and consulting firms use a relatively mechanical approach to diligence and may rely, chiefly, on questionnaires and assertions by the manager for their information, FGG believes that these are only starting points for an understanding of a manager's business, their staff, operational practices, and infrastructure. At this stage, FGG begins qualitative and quantitative reviews of a manager's past performance obtained from independent sources, as well as a series of manager interviews and reference calls.

Through this process, a preliminary assessment evolves of a manager's business and investment practices. Particular attention is paid to the extent to which each manager's controls are reasonably suited to maintain operational, market, and credit risks at an appropriate level and as represented by the manager.

During this period, FGG personnel also have an opportunity to evaluate a manager's attitudes and receptiveness (as opposed to his proclaimed intention) towards providing FGG with full transparency of its security level trading activity and access to its investment thought process.

"There has been an increasing focus on operational due diligence... Hedge fund investors, while primarily focused on their headline risk, should also keep in mind that good operational due diligence will help them avoid funds which may suffer a drag on performance due to weak controls, frequent errors or poor internal information."

This close level of communication and access is the cornerstone of FGG's ongoing relationship with the manager, without which a business relationship with FGG would not exist.

A small number of managers who pass through this basic screening process are considered for further, significant investigation. Some do not progress beyond this stage; some are placed on a watch list for further monitoring. Data covering all managers reviewed are maintained in FGG's proprietary database.

2. Detailed Due Diligence

Once a manager has passed FGG's initial review phase, a more detailed investigation begins. The qualitative and quantitative reviews cover people, processes, portfolios and procedures. A number of areas of inquiry are examined by a team of FGG professionals who specialize in evaluating respective areas of risk. Analysis of portfolio composition, portfolio stress testing, risk management, asset verification, peer group comparison, operational procedures, information technology, and a review of offering documents and financial statements are among the areas of examination. To examine each manager that survives the initial screening process, FGG must spend hundreds of hours performing detailed due diligence. Typically, a manager has been investigated and monitored for six to 12 months before that firm can be accepted onto the FGG platform. Long analysis and negotiating periods reduce the risk of miscommunication and enable FGG to be more confident of its decisions before proceeding with a manager. Areas of examination are centered around the following:

A. Portfolio Evaluation, Investment Performance, and Financial Risks:

Investment performance is a core area for further analysis. FGG attempts to dissect a candidate manager's investment performance, how they generate alpha, and what risks are taken in doing so. In recognition of the fact that portfolio management and risk management incorporate elements of both art and science, FGG applies both qualitative and quantitative measures in this process. Particular focus is given to identifying and understanding various elements of the manager's investment process and strategy-specific financial risk. Ascertaining whether the candidate's fund's performance and volatility are consistent with objectives for that fund is also an area of focus.

Independent prime broker trading records are examined and detailed interviews are conducted in order to allow FGG to better understand the manager's methodology for forming a market view, and for selecting and exiting positions. Trading records for a number of months are selected and analyzed, and FGG conducts a number of qualitative and quantitative tests to determine adherence to risk limits over time. An attempt is made to confirm assets under management, portfolio loss risk controls, diversification and other risk-related control policies, as well as any experience regarding unexpected or extreme market events.

The risk and return factors inherent in the strategy are reviewed. Hedge fund strategies exhibit intrinsic alphas and FGG spends considerable effort evaluating capacity issues, which may affect alpha, as well as expected opportunities going forward within each candidate's strategy. Inquiry is made as to the various drivers underlying a particular portfolio's risk. Changes in risk drivers may indicate a change in market structure, a change in manager style, or simply style tracking drift. Market risk is evaluated both at the instrument and portfolio level.

FGG seeks managers employing low relative leverage and high relative portfolio liquidity, consistent with its capital preservation-oriented investment philosophy. To the extent that leverage is used by a manager, FGG carefully assesses how it is used, the funding sources, and the impact on the risk profile of the fund. For example, has the additional leverage made positions so large as to impair the portfolio's liquidity by increasing the time it would take a
manager to exit a position? With respect to the evaluation of portfolio liquidity, FGG will, among other processes, determine whether or not private or special registration securities are held. We also seek to determine how the daily trading volume and inventory held compares to the float and/or daily trading volume for a given security.

A number of in-house models are used to analyze the historical performance of managers. The analyses conducted include examinations of manager value-added, alpha vs. beta, risk factor decomposition, performance persistence, style fidelity, peer group and index comparisons, liquidity and leverage, and risk attribution.

FGG attempts to understand the return attribution for individual securities in the portfolio, and conducts a full suite of VaR analyses and stress tests to model the loss distribution function under extreme market scenarios. Leverage, concentration limits, and long/short exposures are examined over time to assess whether they have remained within operating guidelines.

Style fidelity is another key area of inquiry at this stage. Like many long-only investment styles, such as growth or value investing, all hedge fund styles often exhibit some degree of cyclical. By carefully examining the manager's trading pattern over time and through various market environments, FGG determines whether the manager is prone to trade outside of their area of expertise.

B. Structural and Operational Risk:

"Structural problems with hedge funds have contributed to substantial investor losses. These could have been prevented or avoided with more comprehensive due diligence and monitoring," a summary of the report said. "Every more alarming was that of the 'operational failures,' misrepresentation (reports and valuations with false or misleading information), misappropriation of funds (fraud) and unauthorized trading was implicit in 85% of cases. Other operational risks included staff processing errors, technology failure, and poor data."

Source: "Why Hedge Funds Fail," by Will Swarts, HedgeFund.net

Structural and operational risks exist to varying degrees in all hedge funds. When one reads about a hedge fund "blow-up" in the media, it is most likely the result of operational failure or fraud. "Operational risk" refers to the risk of loss resulting from inadequate or failed internal processes, human resources, or systems, or from external events. Operational failures, including misrepresentation of valuations and outright fraud, constitute a majority of instances where massive investor losses occur. Other operational risks include staff processing errors, technology failure, and poor data. The inadequacy or lack of independence or transparency of valuation procedures, contingency plans, and other trading and settlement procedures may cause FGG to reject an otherwise appealing manager.

FGG seeks a sound understanding of whether a hedge fund possesses key controls in the areas of portfolio management, conflicts of interest, segregation of duties, and compliance. Contracts with service providers are reviewed to ensure that the fund's securities prices are independently verified. Technology resources are assessed to make sure that the fund is able to handle operating volumes and the type of investments in which the fund engages. FGG carefully assesses the controls and procedures that managers have in place and seek to determine actual compliance with those procedures, often suggesting modifications, separation of responsibilities, and remedial staff additions.

C. Legal, Compliance, and Regulatory Risk:

The legal due diligence process primarily employs the expertise of lawyers, with the aid of accountants, specializing in investment management regulation, compliance, corporations, and tax.
Hedge fund managers function within an ever more complex legal and regulatory landscape, which managers themselves often do not completely understand. The role of this part of the diligence exam is to determine the seriousness of any deficiencies in this area which may cause risk of sanction, loss, or reputational embarrassment. Often, a manager's attitudes about regulatory or operational compliance can be indicative of lax attitudes toward fiduciary duties to investors.

Both in-house and retained legal professionals interview the management and staff of the manager, research regulatory filings (e.g., Forms ADV, BD, 3, 4, 13D/G, 13F, and U-4), and review corporate organizational documents, as well as fund memoranda and related material contracts. Examples of what a proper legal due diligence search may unearth include unusual offshore structures or unexplained vehicles, regulatory disciplinary history, questionable associations or financial or business practices, failure to make material regulatory filings, and inadequate internal control and supervisory procedures.

D. Personal Background Investigation:

While each manager's investment performance and methodology is important in manager selection, understanding their backgrounds is crucial to a successful manager selection. FGG thoroughly examines the abilities and personalities of the individuals involved in managing the fund through extensive interviews, as well as professional background investigations.

In addition to verifying education, personal credit standing, litigation and regulatory background, track record, and other indicators, FGG explores the manager's experience and qualifications relative to the strategy being managed. Prior professional associations of a manager's key personnel can be crucial in understanding a person's experience and character and how they run their investment management business.

Following a review and weighing of the myriad of factors and conclusions that are examined in the due diligence process, the Investment Team presents a proposal to FGG's Executive Committee. FGG's Executive Committee makes a determination as to whether to enter into a relationship with the manager. At this point, FGG's professionals possess a level of understanding of the manager's business that greatly facilitates ongoing monitoring.

FGG's Ongoing Investment and Monitoring Cycle

- Capital Preservation
- Low Volatility
- Low Leverage
- Liquid Portfolios
- Full Transparency

Portfolio Construction Process
Manager Allocation Percentages
Subscriptions
Redemptions
Shareholder Reporting

- Global Network
- Database
- Consultants
- Rigorous Due Diligence
- Philosophical
- Portfolio Fit
- Qualitative
- Quantitative Assessment
- Terms and Conditions
- Initial Partnership Funding

Full Transparency to Securities
Common Fund Administrator
Independent NAV Calculation
Portfolio Analysis/Attribution
Risk and Stress Testing
Ongoing Risk Monitoring and Oversight

Once FGG begins a relationship with a manager and brings their fund to market, FGG's due diligence process evolves into a similarly multi-faceted risk monitoring function. Simply stated, the purpose of this ongoing activity is to ensure that the fund continues to follow its investment methodology – and constraints – and otherwise acts in accordance with the operational and risk framework that was approved during the due diligence phase. Any divergences are discussed with the manager and addressed or resolved; on several occasions, the arrangement with a manager has been terminated as a result of this ongoing review and analysis.

It is important to monitor how a manager's investment and operational behavior, as well as the risks presented by the markets around it, change or evolve over time. Independent information sources aid FGG’s review of portfolios down to the individual security level, and FGG discusses each portfolio with manager personnel each month. FGG also utilizes a number of sophisticated third-party quantitative measurement tools to monitor the performance of its managers. FGG personnel review changes in a variety of factors, including changes in: organization, investment process, risk management, the manager's view of the relevant markets, and their portfolios with respect to those views. Operational processes are periodically reviewed and updated, as are compliance and regulatory issues, and personnel background checks. While FGG has an ongoing due diligence relationship with the manager, which involves frequent monitoring and continuing dialogues, a formal annual due diligence review is conducted after the initial twelve months of investment and thereafter to address administrative and operational issues.

Due diligence, as implemented by FGG, employs a variety of techniques that probe deeply into all key elements of risk, including:

### MANAGER STYLE:
- Performance and volatility consistent with strategy objectives
- Dependence on extremely structured or illiquid securities
- Correlation of manager’s style with the current fund aggregate
- Style drift
- An examination of performance under varying market conditions (volatility shocks, changes to credit spreads, yield curve shifts)
- Deep understanding of idea generation, decision-making, research processes, and execution capabilities
- Determination of a sustainable edge (access to superior research resources, a specialized and differentiated skill set, or an advanced technology platform)

### MARKET RISK:
- Identification of strategy-specific risk exposures and schedule of relevant risk factors
- Generation of loss distribution function through Monte Carlo simulations; calculation of Monte Carlo VaR to examine market risk exhibited by non-linear instruments; VaR results are complemented with stress tests and scenario analyses
- Review adherence to concentration and risk limits and compliance with Operating Guidelines

### OPERATIONAL RISK:
- Review annual financials and auditor's management letter comments; look for affiliated party loans and pledged assets or collateralized loans
- Review accounting controls: from trade execution, to trade capture, to trade reconciliation with the Street, administrator, and fund; to fund's books and records
- Review bank reconciliations for irregular or outstanding items
- Review pricing procedures and valuation procedures and inquire about frequency of pricing disputes; review revenue recognition policies
- Review broker reconciliations to ensure completeness and existence of all securities
- Infrastructure Adequacy Evaluation and disaster recovery plans

### CREDIT RISK:
- Credit mitigants: swaps, derivatives
- Financial guarantees
- Letters and lines of credit
- Exposure limits

### LEGAL RISK:
- Anti-money laundering policies and procedures
- Client complaints and litigation
- Personal trading and trade allocations
- Regulatory exams and results
- Soft dollars and directed brokerage/best execution
Conclusion

During FGG's 20+ year history, the firm's extensive due diligence and risk monitoring process has evolved to meet client needs and changes in the markets.

The growth of this process has particularly accelerated in response to these needs during the past several years, with a resulting expansion of FGG's staff and further refinement of its methods. The extent of this process is profoundly more in-depth than the system for manager selection and oversight typically applied by fund of funds and consultants, reflecting the unique needs of FGG's business model.

The purpose of FGGs in-depth due diligence and risk monitoring program is to ensure that funds offered to our clients are managed "as advertised," i.e., according to specified portfolio composition and investment parameters, with no "style drift" or significantly altered risk profile. These measures also ensure that funds are managed in a prudent operating environment. By conducting this program, FGG seeks to enhance the likelihood of superior risk adjusted returns in our funds for the benefit of our investors, for years to come.

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