

ANWAR, *et al.*,

Plaintiffs,

-against-

FAIRFIELD GREENWICH LIMITED, *et al.*,

Defendants.

This Document Relates To: All Actions

Master File No. 09-cv-118 (VM)

**CONSOLIDATED AMENDED COMPLAINT**

**Exhibit 12**

# FairfieldGreenwichGroup

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## INVESTMENT PROCESS AND RISK MANAGEMENT OVERVIEW

April, 2006

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# Investment Team

Andrew Smith	Partner, Portfolio Manager, Fairfield Greenwich Group
Patrick Blake	Managing Director, Principal of the Investment Committee, Fairfield Greenwich Group
Jennifer Keeney	Managing Director, Head of Due Diligence, Principal of the Investment Committee, Fairfield Greenwich Group
Amit Vijayvergiya, CFA, FRM	Managing Director, Head of Risk Management, Fairfield Greenwich (Bermuda) Ltd.
David Upson	Managing Director, Head of Risk Management, Fairfield Greenwich (Bermuda) Ltd.
Charles Oddy	Vice President, Senior Risk Officer, Fairfield Greenwich (Bermuda) Ltd.
Enrique Méndez	Senior Vice President, Fairfield Greenwich Group
Adrienne Garofalo	Senior Vice President, Fairfield Greenwich Group

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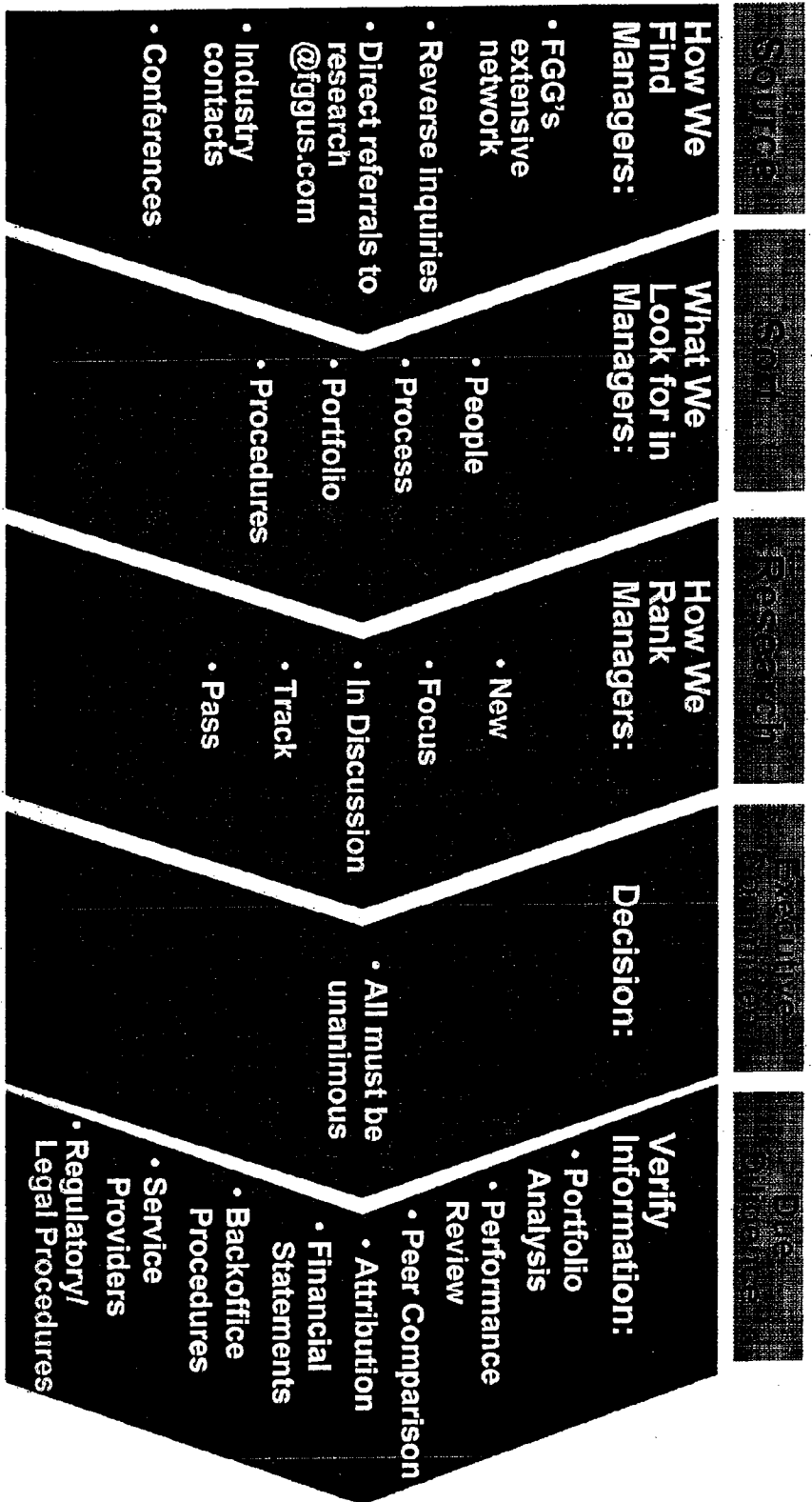
## What We Look For In Managers

- ✓ Strong risk management
- ✓ Solid investment process
- ✓ Modest or no relative leverage
- ✓ Portfolio liquidity
- ✓ Competitive track record/substantiated strong industry reputation
- ✓ Market opportunities
- ✓ Established business practices
- ✓ Team infrastructure
- ✓ Operational procedures
- ✓ Legal/Compliance
- ✓ Capacity
- ✓ Transparency
- ✓ Avoid overcrowded & narrow strategies

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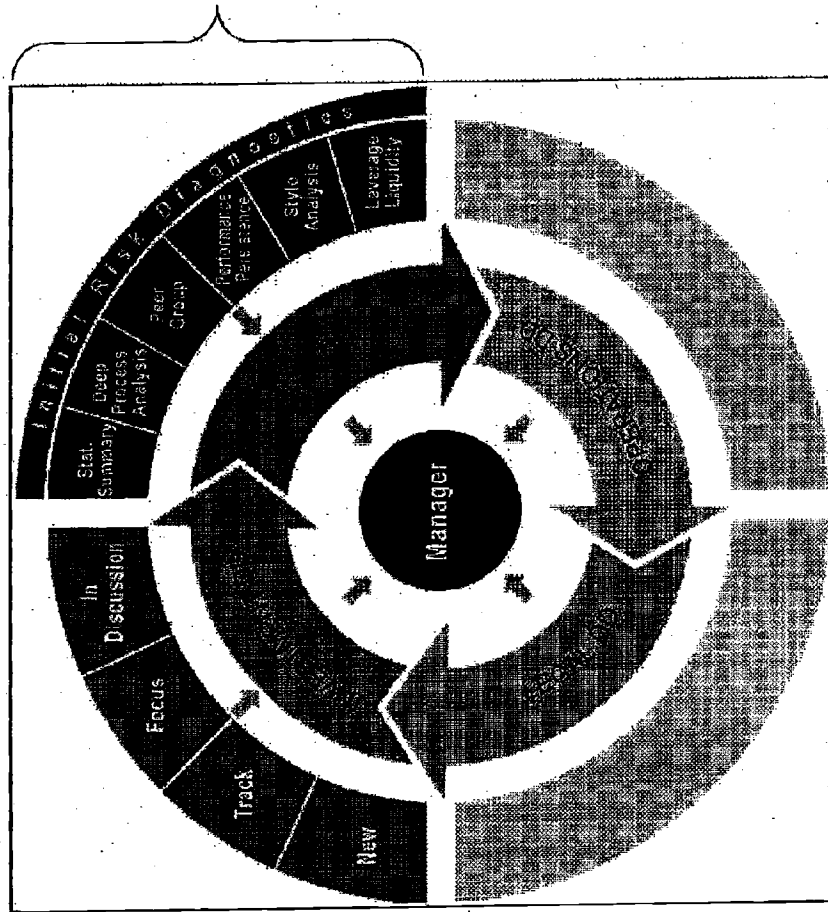
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# Manager Selection Process: Tools and Steps



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# Initial Manager Search



## Initial Risk Diagnostics

- Quantitative models to evaluate past performance
- Based on monthly return history
- Serves as one input to the initial manager DD effort

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# Manager Database Example

SalesLogix - [Account: Paradigm]

**ACCOUNTS**

Paradigm  
Paradigm  
Paradigm Investors LP  
135 Third Avenue, 15F  
New York, NY 10017

Phone: (212) 475-3062  
Fax: (212) 475-3074

Web: [Redacted]  
E-Mail: [Redacted]

Address: [Redacted]  
City: [Redacted]  
State: [Redacted]  
Zip: [Redacted]

Owner: [Redacted]  
Assn Mgr: [Redacted]

Due Diligence: [Redacted]

Invested: [Redacted]

Count

Field Manager  
October 2001  
Andrew Smith  
Long Short Equities  
LSE US Mid Cap Value  
\$671,000,000.00  
3/31/2008 11:08 AM  
1441,000,000  
Invested

RE: paradigm  
Paradigm  
RE: Paradigm DD meeting 4/15/04  
RE: Paradigm DD meeting 4/15/04  
RE: Paradigm DD meeting 4/15/04  
Paradigm Private Client  
RE: Paradigm  
RE: Paradigm  
RE: Paradigm  
RE: Fairfield Paradigm  
Paradigm Investors  
RE: Paradigm Investors

Apr-20-2004 12:38 PM  
Apr-20-2004 11:15 AM  
Apr-19-2004 12:38 PM  
Apr-19-2004 6:25 PM  
Apr-19-2004 8:24 PM  
Apr-19-2004 5:20 PM  
Apr-19-2004 11:08 AM  
Apr-19-2004 12:06 PM  
Apr-19-2004 12:00 PM  
Apr-19-2004 11:08 AM  
Apr-19-2004 2:10 PM  
Mar-05-2004 8:27 PM  
Mar-03-2004 5:51 PM

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## **Investment Process Review**

- **Performance and volatility consistent with strategy objectives**
- **Strategy offers attractive risk/reward objectives**
- **Concentration by sector, country, and security**
- **Size of positions and amount of assets under management relative to market liquidity and risk controls**
- **Performance results during volatile periods**

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# Continuous Monitoring, Ongoing Due Diligence

## Monthly Reviews and Reports

- Investment strategy
- Specific positions of interest
- Market outlook
- Projected strategy changes, if any
- Operational processes are periodically reviewed and updated, as are compliance and regulatory changes

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MONTHLY STRATEGY REVIEW  
**Arlington International Fund Ltd.**  
Investment Manager: Fairfield Greenwich Limited  
June 2004

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Based on Net Asset Value*	Based on Gross Exposure (Est.)
Cash 71.8%	Cash 40.2%
Longs 67.8%	Longs 37.8%
Shorts (39.2%)	Shorts 22.0

\* As of the close on July 5, 2004. Performance shown is net of all fees and expenses.

**Portfolio Exposures - June 30, 2004**

**Sector Exposure**

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## Manager Screening Stats

- **720+ managers reviewed since April 2004**
- **460+ managers reviewed in 2005**
  - ❖ FGG referrals = 43%
  - ❖ Reverse inquiries = 31%
  - ❖ Capital introduction teams = 26%
- **8 managers added in 2005**

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# Due Diligence

## Due Diligence Overview

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## Due Diligence: Headlines to Avoid

- "S.E.C. Sues Former Hedge Fund Manager" – Sept. 28, '05
- "Bayou Duo Plead Guilty to Fraud" – Sept. 30, '05
- "Ex-Operating Officer at Durus Pleads Guilty" – Oct. 13, '05
- "Wood River, Manager, Face S.E.C. Civil Fraud Suit" – Oct. 14, '05
- "Aurora Capital Has its Assets Frozen" – Oct. 25, '05



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# Due Diligence – Qualitative and Quantitative Assessments

- ✓ People
- ✓ Process
- ✓ Portfolio
- ✓ Procedures
- ✓ Investment Risk
- ✓ Business Risk
- ✓ Operational Risk
- ✓ Liquidity Risk

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## **Due Diligence – Review of Financials and Documents**

- **Review financial statements**
  - Check for ‘reputable’ auditor
  - Qualified opinion
  - Footnotes
  - Comparable performance
  - Manager’s personal investment
  - Expenses
- **Review offering and subscription documents**
  - Company structure, subscription/redemption terms
  - Fee structure, entrance/exit fees
  - Share classes
  - Investment restrictions
  - Suspension events

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## **Due Diligence – Valuation Procedures**

### **FGG Must Understand:**

- **Explanation of valuation methods used**
- **Practices/systems for capturing pricing data for manager's positions from independent sources**
- **Methods used for obtaining prices when prices aren't readily available from common data sources**
- **Policies for price discrepancies**

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## **Due Diligence – Onsite Backoffice Review**

- **FGG must know:**
  - Who performs trade executions?
  - What systems are used?
  - Who is responsible for the backoffice?
- **FGG must understand:**
  - Trade execution process
  - Reconciliation procedures
  - Controls used for cash movements
  - Business Continuity Plan / Disaster Recovery Plan

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## **Due Diligence – Service Provider Review**

- **Administrators**
- **Attorneys**
- **Auditors**
- **Prime Brokers / Custodians**
- **Outsourced consultants**

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## **Due Diligence – Additional Review**

- **Review contracts, regulatory issues, realized and potential**
- **Review Form ADV, Focus Report and other regulatory filings**
- **Speak with investor and industry references**
- **Run background checks**

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**FGG Final Report –  
for Internal Use Only**

- **Addresses any exceptions/concerns found in due diligence**

<p><b>FairfieldGreenwichGroup</b> Due Diligence – Final Report <b>INTERNAL USE ONLY</b></p>	
<p><b>Company Name:</b> PILOT ADVISORS LP</p>	<p><b>Investment Strategy:</b> EQUITY HEDGE – U.S. <b>Due Diligence Date:</b> 3/30/04</p>
<p><b>Fund Name(s):</b> PARADIGM INVESTORS LP PARADIGM INVESTORS II, LP MANAGED ACCOUNTS <b>Manager Name(s):</b></p>	<p><b>Investment Date:</b> 5/1/04</p>

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## Characteristics of A Well-Positioned Hedge Fund





- ✓ “Founder with a Wall Street pedigree”
- ✓ “Experience at a well-known hedge fund firm”
- ✓ “Easily understood trading strategy”
- ✓ “First rate service providers”
  
- In particular, these were hallmarks of Bayou Management, a CT-based firm now being investigated for fraud.

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## **Put To the Test: Our Due Diligence Process Would Reveal...**

- ✓ **Review service providers**  **We would question Bayou's obscure auditing firm.**
- ✓ **Background check of principals**  **Reveals past disciplinary actions.**
- ✓ **Verify firm's promotional materials, manager's credentials.**  **Previous employer denied Bayou's previous responsibility claims.**
- ✓ **Visit office, have several face-to-face meetings.**  **Watch for inconsistent answers, refusal to give information.**

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## Put To the Test, continued:

- ✓ Review Compliance Manual, Employee Code of Ethics  We would questions lax policies and lack of procedures in place.
- ✓ Review past portfolios  Facilitates risk analysis of fund
- ✓ Verify assets under management for all funds directly with prime broker / administrator.  Provides independent, third party confirmation of assets
- ✓ Review trading procedures; verify pricing procedures with administrator.  Confirm segregation of duties in back office; receive independent verification.

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# Risk Management

## Risk Management Overview

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## **Risk Management Overview: Initial Risk Monitoring**

- **Ensure that the risks we assume are identified, well understood, intentionally taken, properly measured, monitored, and controlled**
- **Minimize the risks that we haven't identified, don't understand, or for which investors are not compensated**

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## **Risk Tools**

- **PerTrac**
- **Investment Compliance System**
- **RiskMetrics**
- **In-house models**

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## Transparency

- **Receive full end-of-day position level transparency for all managers via Web access to prime brokers**
- **Conduct risk oversight of our managers**
  - Monitor adherence to operating guidelines and standards
  - Examine exposures and concentrations to industries, sectors, market cap, liquidity, FX, geographic regions etc.
  - Monitor style fidelity
  - Calculate VaR, stress tests, and scenario analyses to examine exposures to risk factors
  - Liquidity and leverage analysis

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## **Ongoing Monitoring Process**

- **Monthly (and even more frequent) conversations with managers to ensure the consistency of investment methodology**
- **Full transparency with managers allows risk monitoring**
- **Monthly manager reviews written by FGG are made available to clients**
- **Webcasts by managers**

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