

Plaintiffs' expert reports, as setting forth types of reckless acts that CFSE committed and examples of facts showing CFSE's recklessness.

21. State whether You contend that CFSE breached any of the Administration Agreements, and, if so, identify which provisions of such Administration Agreements You contend were breached and all facts You contend support such breach.

RESPONSE: Plaintiffs object to this Request on the grounds that it is overbroad and unduly burdensome. Without waiving the foregoing objection and the General Objections, Plaintiffs contend that CFSE breached the following Agreements and provisions:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Plaintiffs incorporate their Responses to Interrogatory Nos. 1, 4, 5, 6, 8, 11, and 13, and Plaintiffs' expert reports, as setting forth examples of facts showing CFSE's breaches.

November 8, 2013

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CERTIFICATE OF SERVICE

I hereby certify that on November 8, 2013, I caused the foregoing attached document to be electronically served to all counsel on the attached service list:



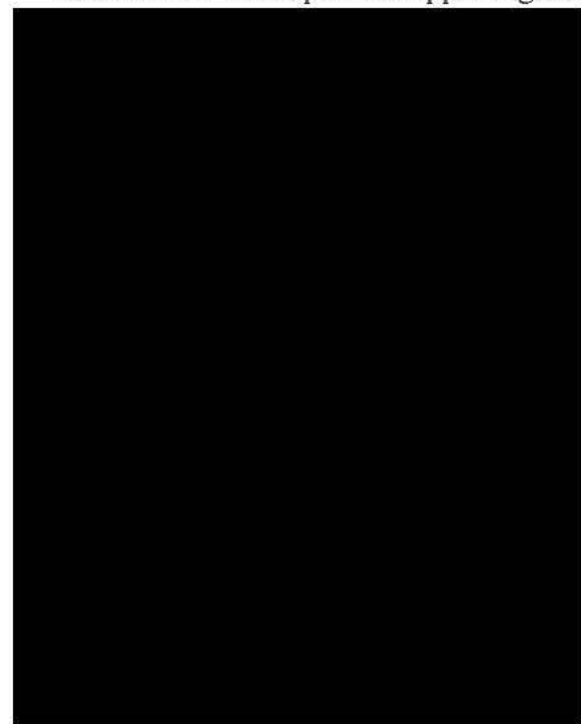
Sashi Bach Boruchow

Appendix A¹

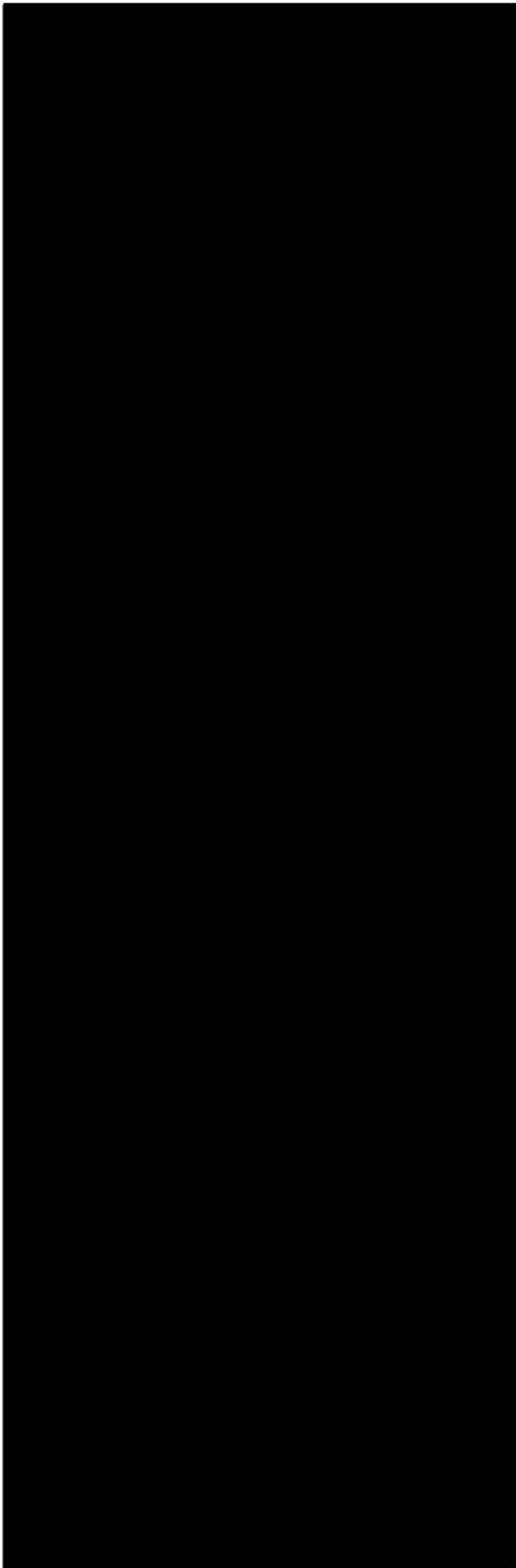
- 1. Lack of Independent Verification of Fund Trades and Assets and Citco's Failed Efforts to Obtain Independent Verification:** Plaintiffs contend that Citco recognized that the trades that Madoff/BLMIS purported to execute on behalf of the Funds and the assets he purported to hold on behalf of the Funds were not verified by any party independent of Madoff. Citco recognized the importance of verification independent of Madoff of trades and assets, and the risks associated with lack of independent verification. [REDACTED]

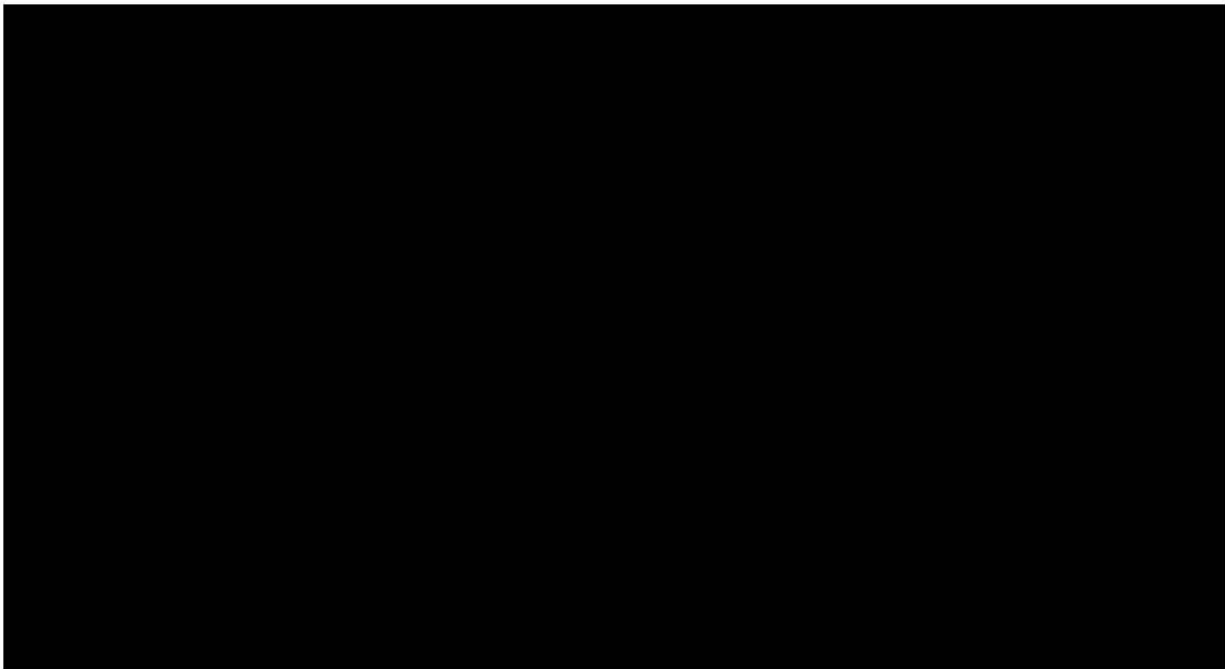
[REDACTED], [REDACTED]
Citco took steps to try to obtain independent verification, including meeting with BLMIS/Madoff. BLMIS/Madoff rebuffed Citco's attempts to obtain independent verification, which made the risks associated with the lack of verification from sources independent of Madoff of the Funds' trades and assets even more apparent to Citco. For example, [REDACTED]

[REDACTED] Following these failures, Citco took no further meaningful action to obtain independent verification or to warn investors about the lack of verification from sources independent of Madoff or Citco's own failed efforts to obtain independent verification. Examples of supporting documents and testimony include:

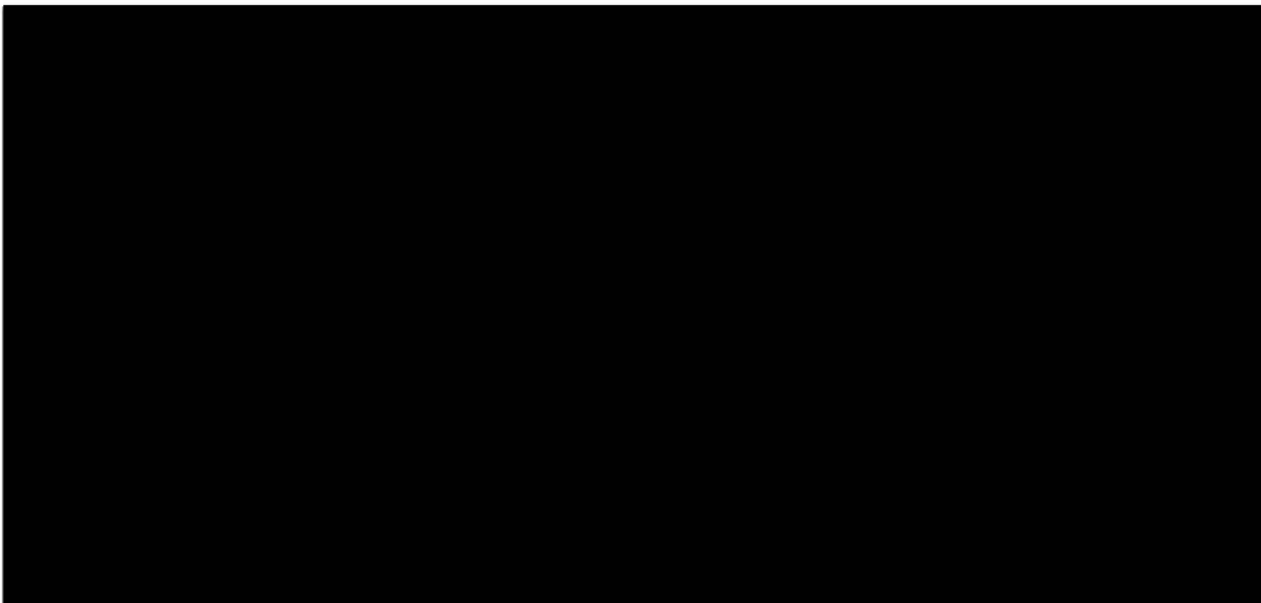


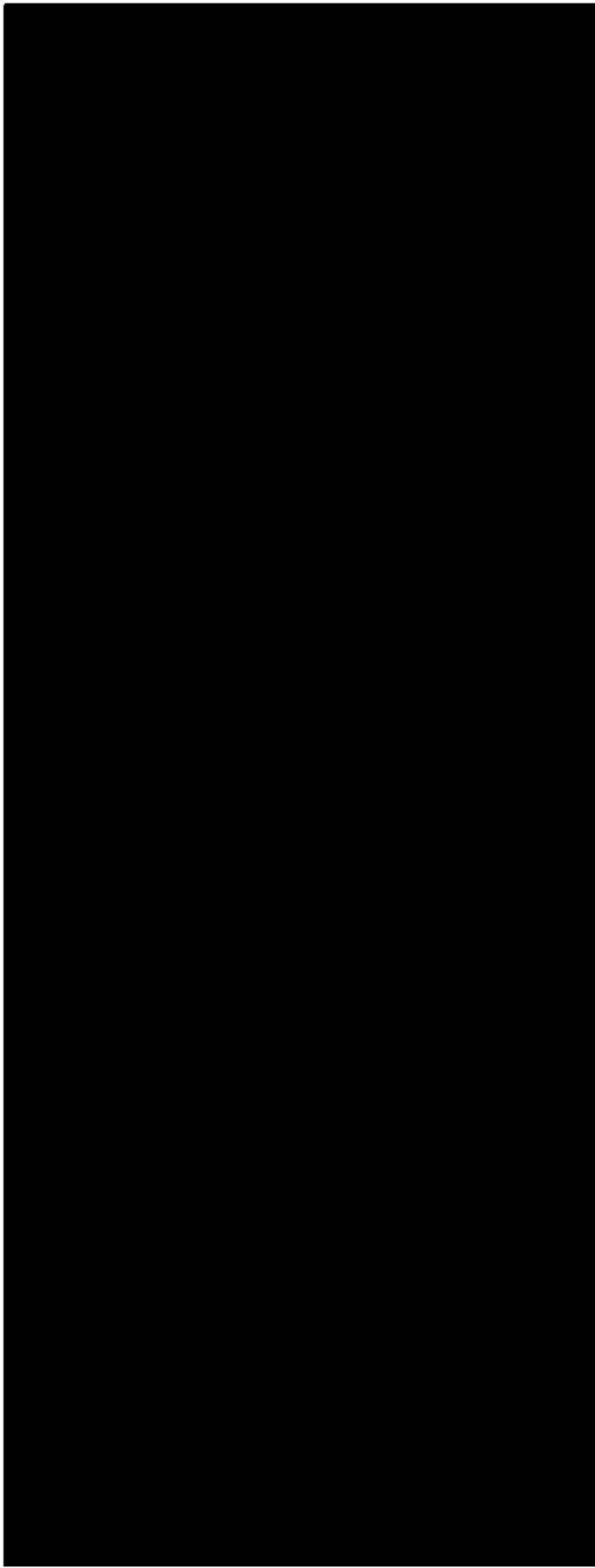
¹ Documents and testimony identified in Appendix A may relate to multiple different issues, but may only be listed once herein so as to avoid unnecessary duplication.

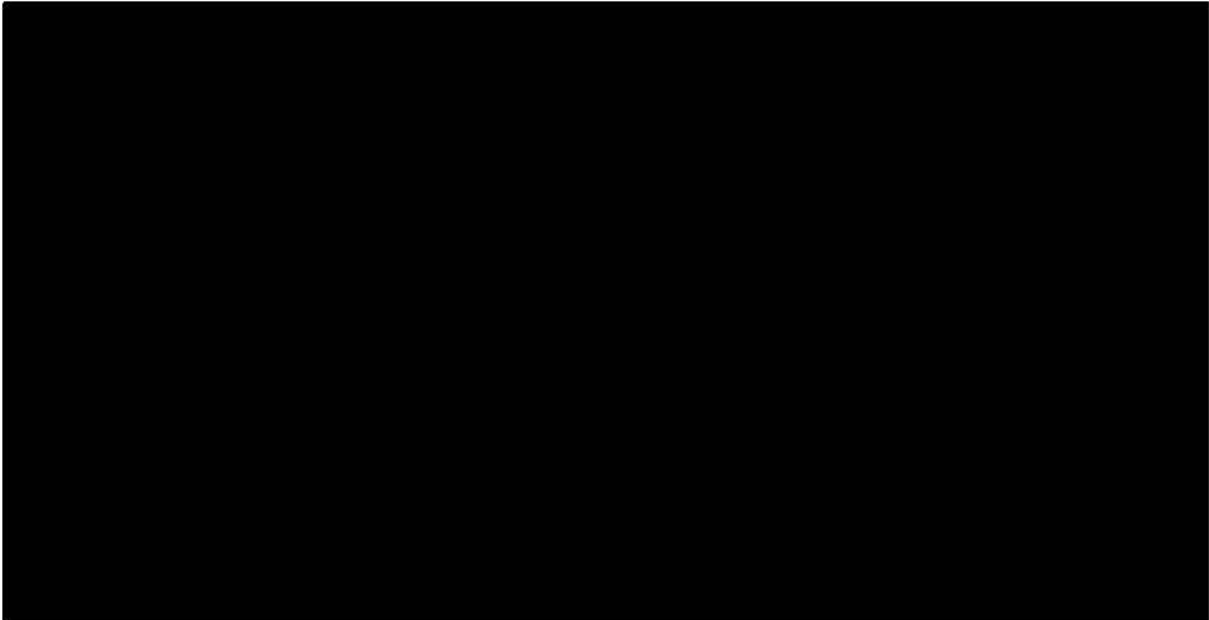
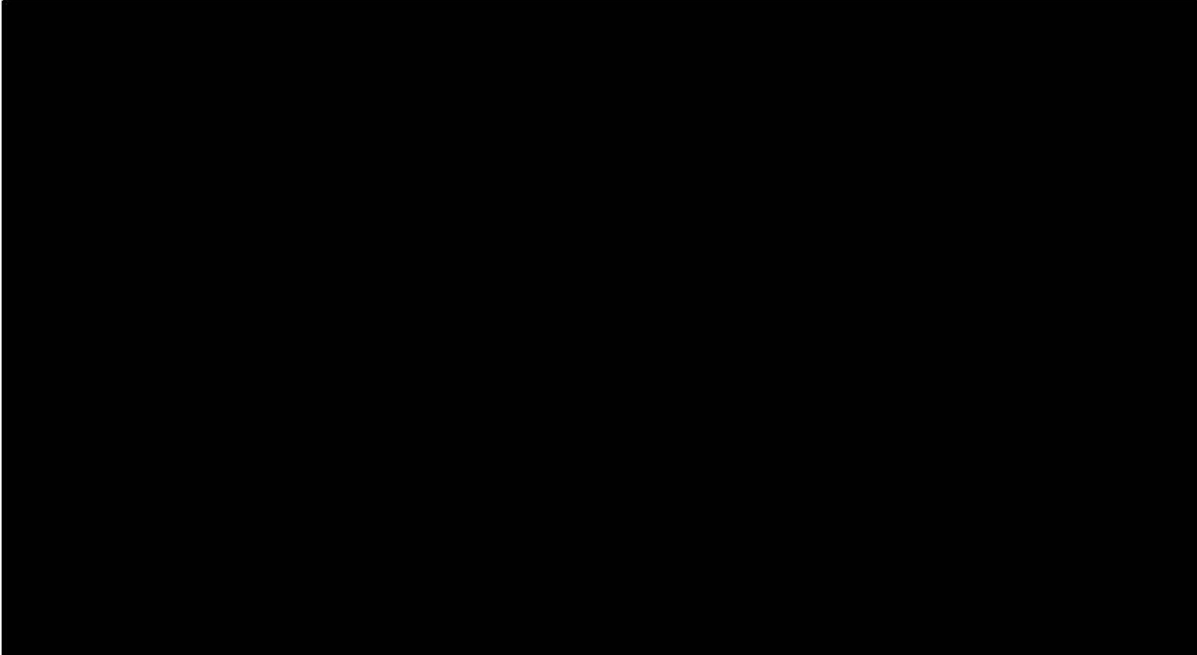


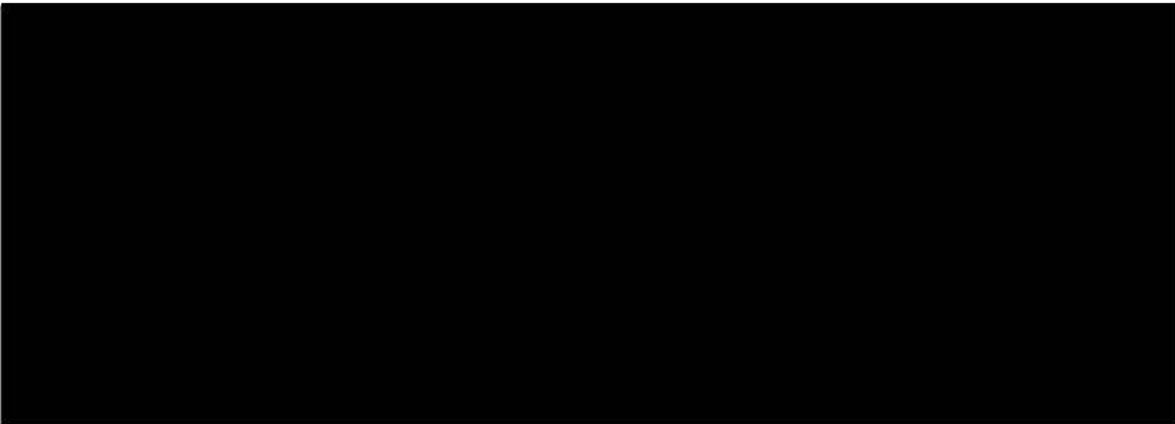



- 2. Lack of meaningful segregation of duties:** Plaintiffs contend that Citco was aware that the Funds lacked any meaningful segregation of duties, because all key roles – that of broker, custodian, and investment manager – were consolidated in BLMIS/Madoff. Plaintiffs further contend that Citco was aware of the risks presented by such a structure – namely, that there was nothing to prevent BLMIS/Madoff from misrepresenting Fund trades and assets to Citco and others. Plaintiffs further contend that Citco recognized what steps were necessary to protect investors from the risks presented by lack of segregation of assets – such as obtaining from sources independent of Madoff verification of Fund trades and assets, insisting on an independent audit, or restructuring the Funds to allow for segregation of duties – but failed to take such steps or to insist that such steps be taken, and failed to warn investors that Citco had failed to take such steps, while continuing to serve as administrator and custodian. Examples of supporting documents and testimony include:

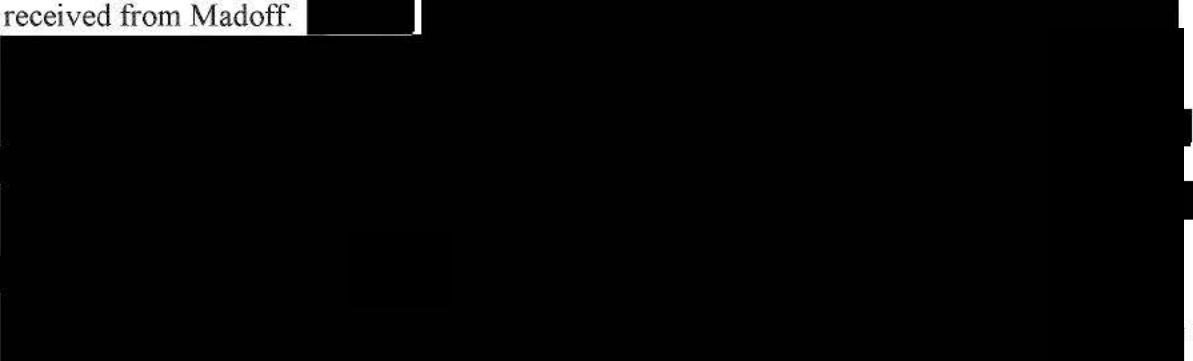




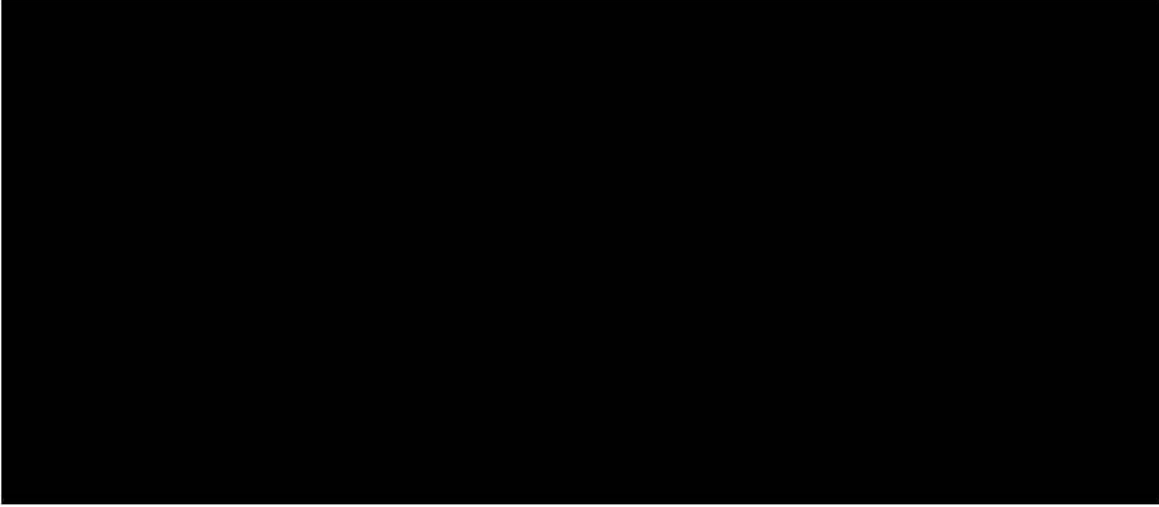
- 
3. **Lack of due diligence on Madoff:** Citco was aware that BLMIS/Madoff rebuffed even minimal efforts to obtain independent verification that the reported trades had occurred and were being properly allocated to the Funds, and that the Funds' assets existed. Citco was aware that even Citco's belated and deficient attempts to conduct due diligence on Madoff as subcustodian were rebuffed by him when returning only a partially completed due diligence questionnaire, and never responded to repeated subsequent requests for complete information. BLMIS/Madoff's continuing refusal to cooperate with Citco and address the concerns or questions raised by Citco in any meaningful way made the risks associated with the Funds even more apparent to Citco. Nevertheless, Citco never warned investors about Madoff's refusal to cooperate or Citco's failed due diligence efforts, while continuing to serve as administrator and custodian. Examples of supporting documents and testimony include:
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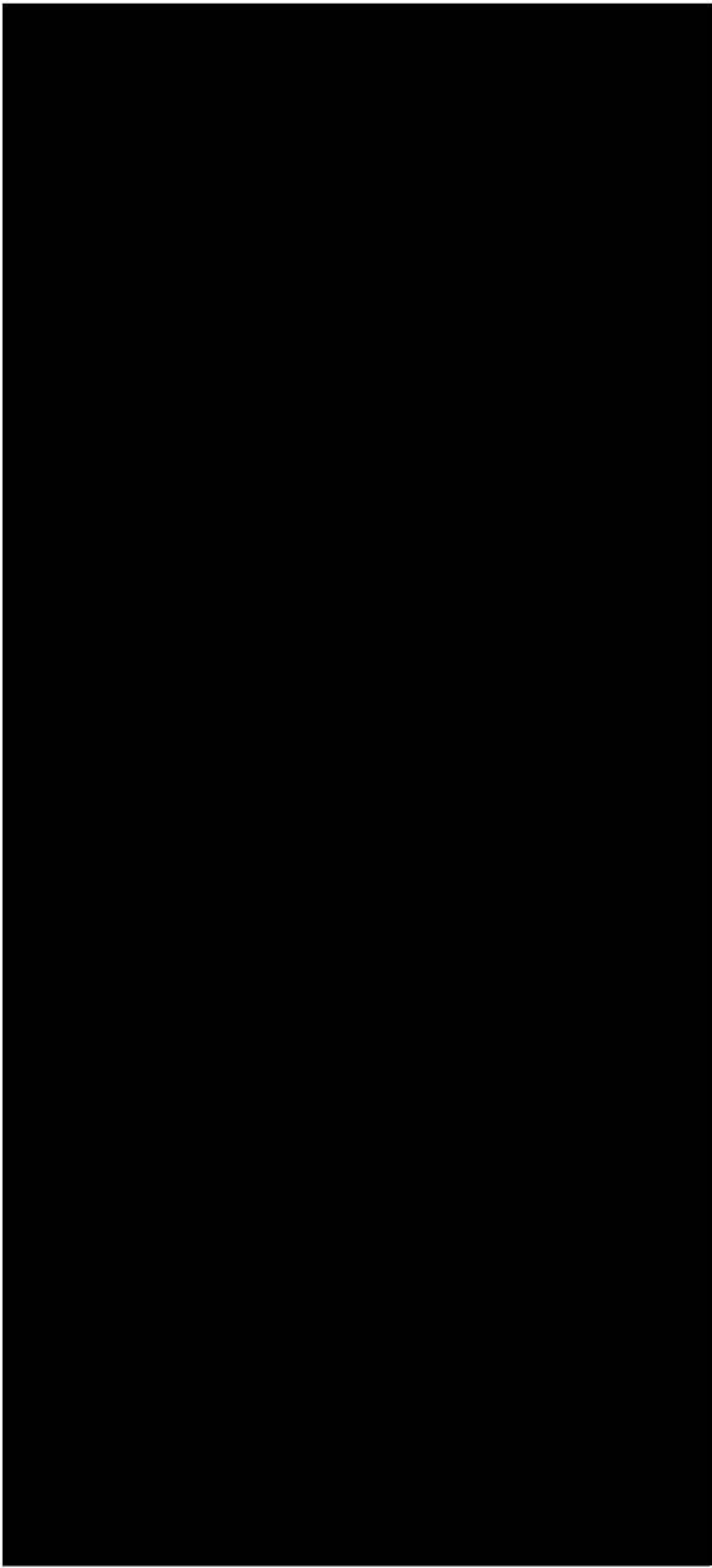


4. **Misrepresentations to the Irish Stock Exchange and Plaintiffs concerning Citco’s role as custodian and Madoff’s discretion as investment advisor:** Plaintiffs contend that, until 2004, Citco recognized that its role as custodian for the Fairfield Sentry Fund was being misrepresented to Plaintiffs and to the Irish Stock Exchange – namely, that Citco was serving as an independent custodian, when in fact, Citco was not an independent custodian. Rather, BLMIS/Madoff held the Funds’ assets and Citco received all of its information about the Funds’ holdings and transactions from BLMIS/Madoff, merely “copying” statements it received from Madoff. 



The misrepresentations undertaken by Fairfield in order to avoid using a truly independent custodian made the risks associated with the Funds even more apparent to Citco. Nevertheless, Citco failed to disclose any of the foregoing to Plaintiffs, while continuing to serve as administrator and custodian. Examples of supporting documents and testimony include:





5. **Citco's knowledge that PwC was not performing any tests at BLMIS/Madoff to confirm trades or existence of the Funds' assets:** Plaintiffs contend that Citco knew that PwC was not performing any tests at BLMIS/Madoff to confirm the occurrence of purported trades or the existence of the Funds' assets, thus increasing the risk of fraud, as described above.

[REDACTED]

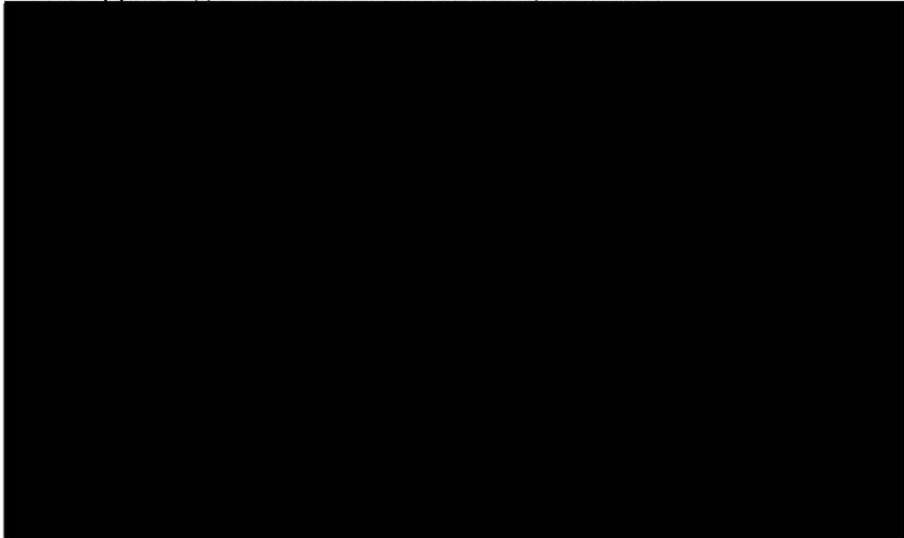
[REDACTED]

6. **Madoff's small, obscure auditor:** Citco recognized that Madoff/BLMIS was audited by Friehling & Horowitz, a small, obscure firm, and that such audits were wholly inadequate to address or alleviate Citco's concerns regarding the structure of the Funds, the lack of segregation and independent verification of trades and assets, and other risks discussed above and below. Citco failed to disclose the inadequacy of Friehling & Horowitz to Plaintiffs, or the fact that no reputable audit firm was actually performing any tests at BLMIS/Madoff to confirm existence of the Funds' assets or that transactions Madoff/BLMIS reported had actually occurred, while continuing to serve as administrator and custodian. Examples of supporting documents and testimony include:

[REDACTED]



7. **Lack of knowledge of Madoff’s purported counterparties:** Plaintiffs contend that Citco recognized that Madoff failed to disclose the counterparties to his options trades, and that if Citco had demanded such information, as standard practice requires, Citco would have been able to confirm the occurrence or non-occurrence of the trades with the independent counterparties. Moreover, Citco knew that BLMIS/Madoff was unknown in the options trading market despite engaging in purportedly huge volumes of OTC options trades, which made the risks related to the Funds and their assets even more apparent to Citco. Examples of supporting documents and testimony include:

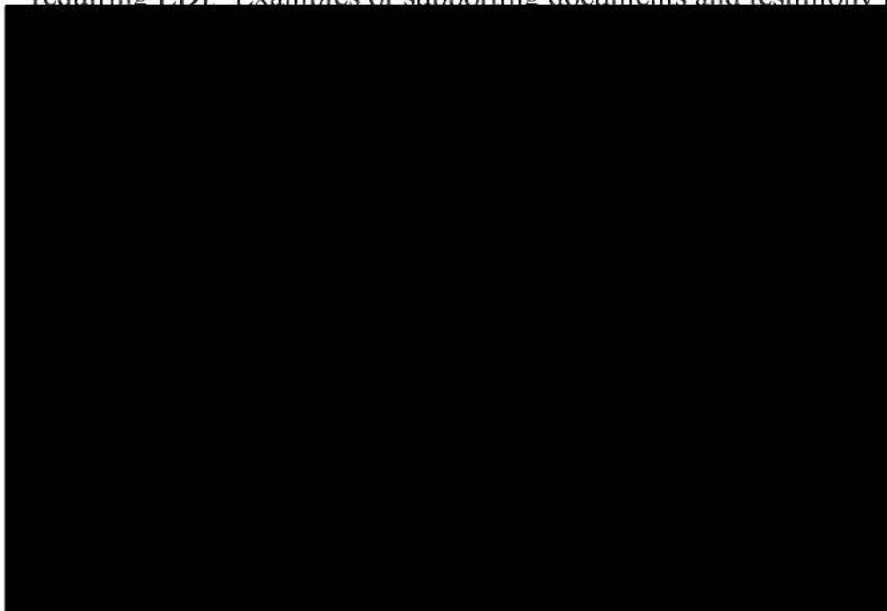


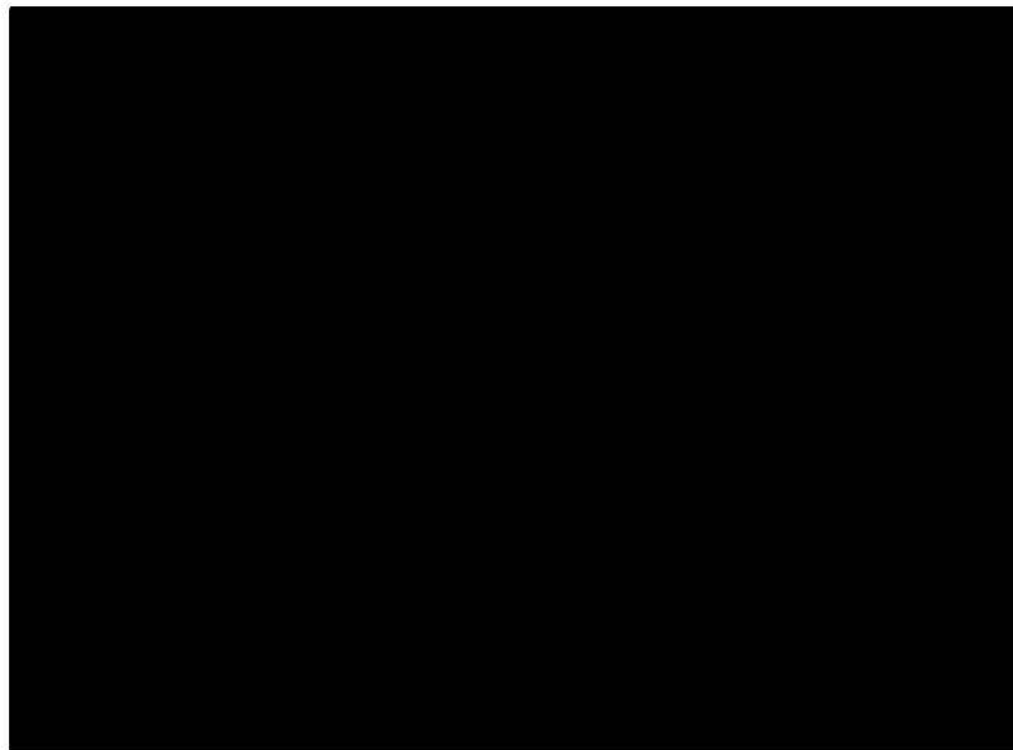
8. **Madoff’s purported trading cycle:** Plaintiffs contend that Citco recognized that Madoff’s trading cycle, where he purportedly sold all other assets and invested solely in US Treasury securities at the end of each quarter, did not appear to be based on market conditions, and that, when asked by Citco, BLMIS/Madoff could provide no logical explanation for this pattern, a fact that made the risk even more apparent to Citco. Nevertheless, Citco failed to disclose this risk to Plaintiffs, while continuing to serve as administrator and custodian. Examples of supporting documents and testimony include:



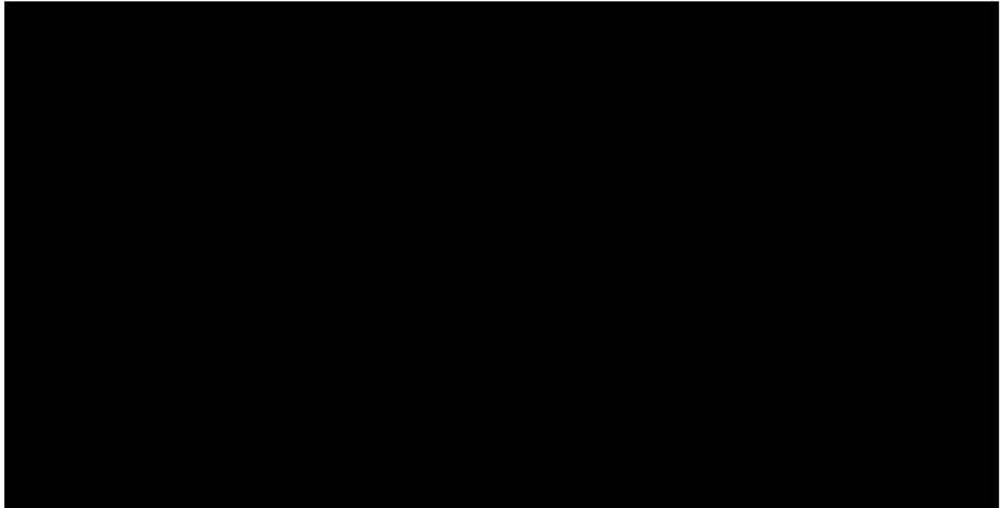


9. **Madoff's refusal to provide a real time electronic data interchange (EDI) reflecting his trades:** Plaintiffs contend that Citco recognized that BLMIS/Madoff's refusal to provide a real time electronic data interchange (EDI) reflecting his trades violated Citco's own policies, and was inconsistent with industry practice, particularly given the type of securities being traded. Citco further recognized that hard copy trade tickets, like those provided by Madoff/BLMIS, increased the risk of falsification, as had occurred in other frauds, such as the Manhattan Fund fraud. Although Citco took steps to try to obtain an EDI from BLMIS/Madoff, Citco's efforts were inadequate. BLMIS/Madoff rebuffed any attempt to set up EDI between BLMIS/Madoff and Citco, which made the risks associated with paper tickets and the absence of EDI even more apparent to Citco. Following these failures, Citco took no further meaningful action to obtain EDI, or to warn investors about the lack of EDI, Madoff's inexplicable refusal to provide EDI, or the violation of Citco's own policies requiring EDI. Examples of supporting documents and testimony include:

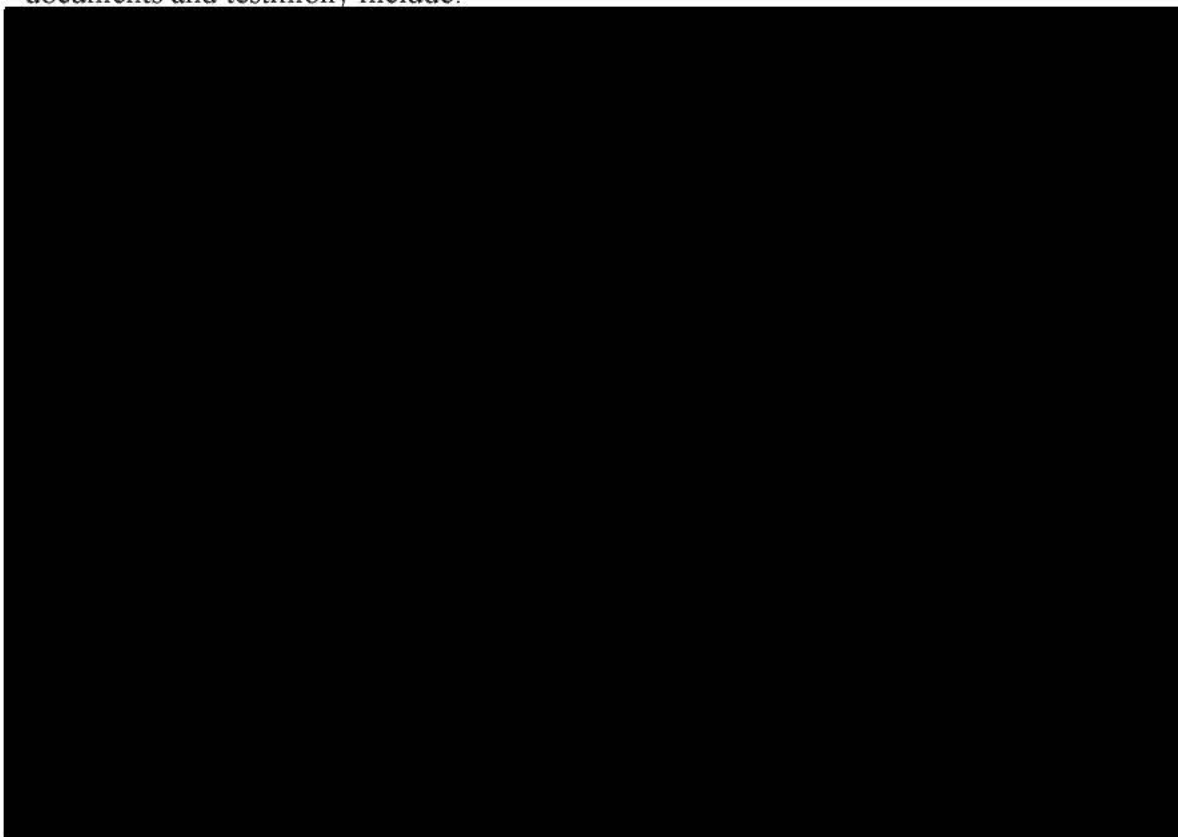





10. **Madoff's delay in providing trade tickets:** Plaintiffs contend that Citco recognized that the delay between when BLMIS/Madoff purportedly executed a trade on behalf of the Funds and when BLMIS/Madoff sent Citco a confirmation of that trade were contrary to industry practice and increased the risk of fraud. Moreover, on numerous occasions Citco would receive no trade confirmation at all from Madoff, and would have to seek a copy of the confirmation that Madoff sent to Fairfield. This was compounded by the fact that Madoff's monthly statements only listed the settlement dates, not the trade dates, for his purported transactions. These practices on the part of BLMIS/Madoff made the risk of fraud even more apparent to Citco, but Citco failed to disclose this risk to Plaintiffs while continuing to serve as administrator and custodian. Examples of supporting documents and testimony include:



11. **Discrepancies in Madoff's pricing of transactions:** Plaintiffs contend that Citco recognized that multiple trades and purported receipts of dividends made or received by the Funds that were posted and/or reported by BLMIS/Madoff did not conform to the timing, prices and amounts reported by Bloomberg or other publicly available information, yet failed to take minimally sufficient efforts to investigate the discrepancies or verify BLMIS/Madoff's pricing, trades and dividend information. These discrepancies made the risk of fraud even more apparent to Citco, but Citco failed to disclose the discrepancies or Citco's failure to follow up on such discrepancies to Plaintiffs. Examples of supporting documents and testimony include:



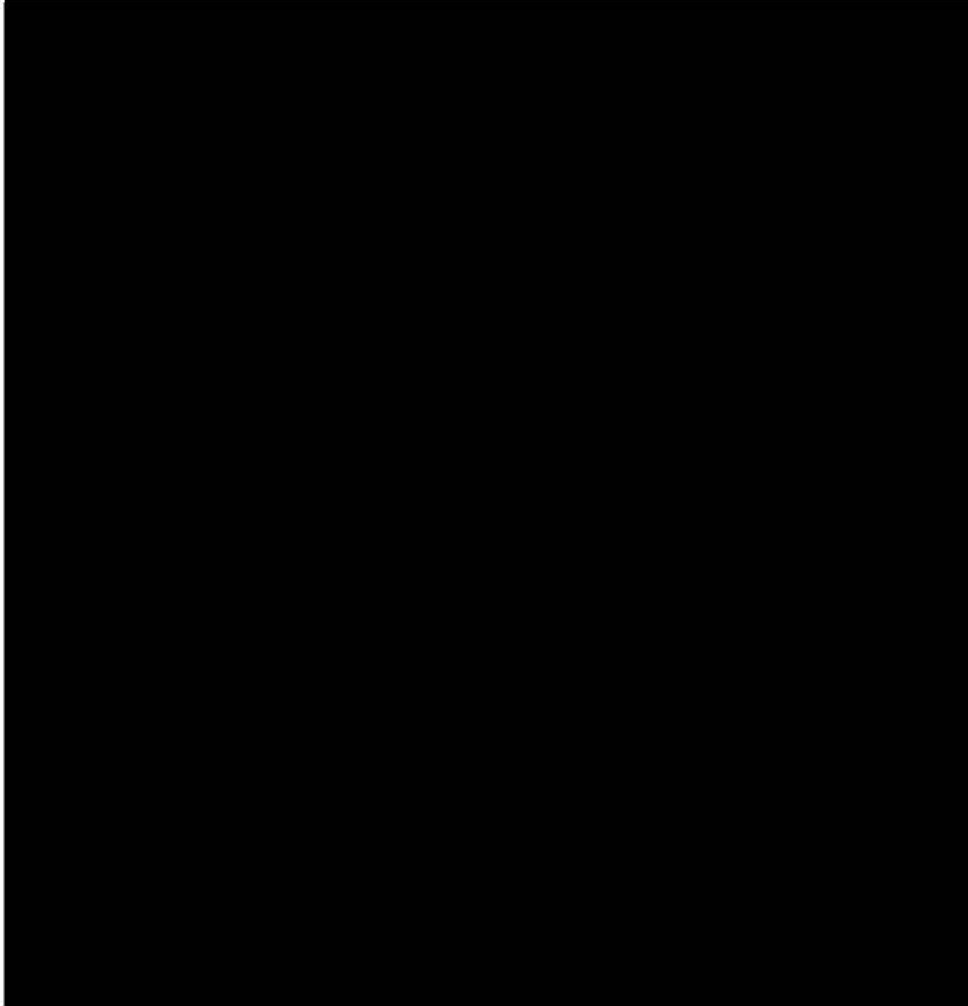
12. **Additional Factors:** Plaintiffs contend that the issues above were especially indicative of a fraud when considered together, and when considered against the background of other factors including: (i) that the Funds' experienced improbably consistent positive returns, with only a handful of negative months in over a decade despite substantial volatility in the index that the BLMIS/Madoff split-strike conversion strategy supposedly was tracking; (ii) that major media outlets in the hedge fund community reported on widespread skepticism about Madoff's consistently positive returns; (iii) that Madoff was exceptionally secretive in his business operations, shunning attempts at due diligence as noted above; (iv) that Madoff family members served in key positions in the BLMIS organization, including in his compliance department; and the other risk factors identified in Plaintiffs' expert reports and rebuttal reports, incorporated herein. Examples of supporting documents and testimony include:



In addition to the foregoing documents and testimony, principal or material facts and evidence supporting Plaintiffs' contentions are contained in the reports and rebuttal reports of Plaintiffs' expert witnesses, including the documents and testimony upon which they rely.

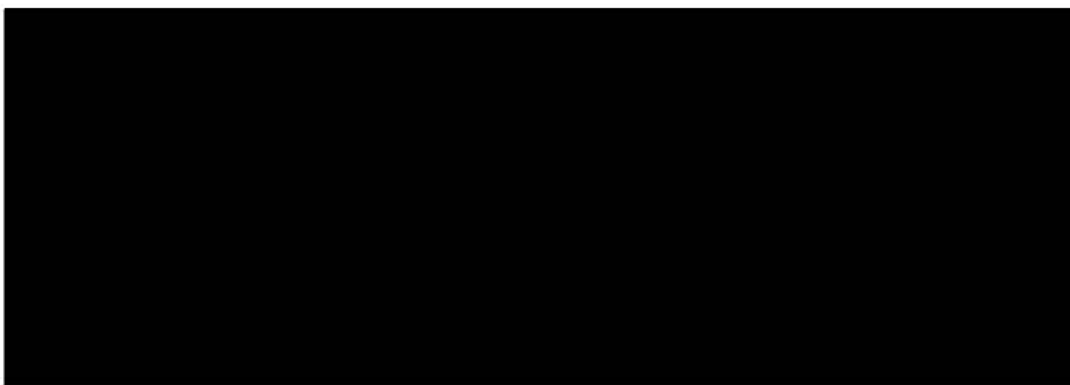
Appendix B

A. Administration and Custodial Agreements:

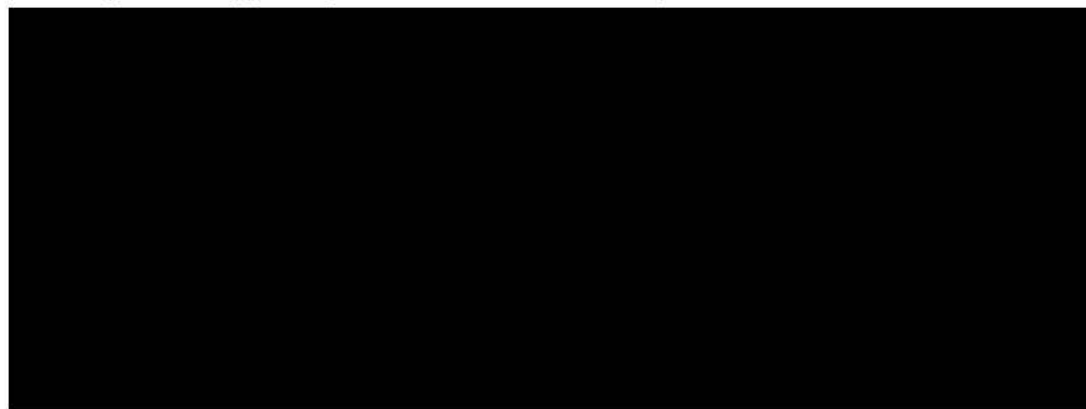


Appendix C²

- A. Lack of Independent Verification of Fund Trades and Assets:** Fairfield did not take any action to verify with independent third parties, such as the DTC or purported counterparties, that Madoff executed the transactions – including the purchase and sale of securities – on behalf of the Funds that he claimed to execute. Instead, Fairfield either took Madoff’s word for it, or was content to examine documents or computer screens that Madoff provided to them, all of which were fabricated. Examples of supporting documents and testimony include:

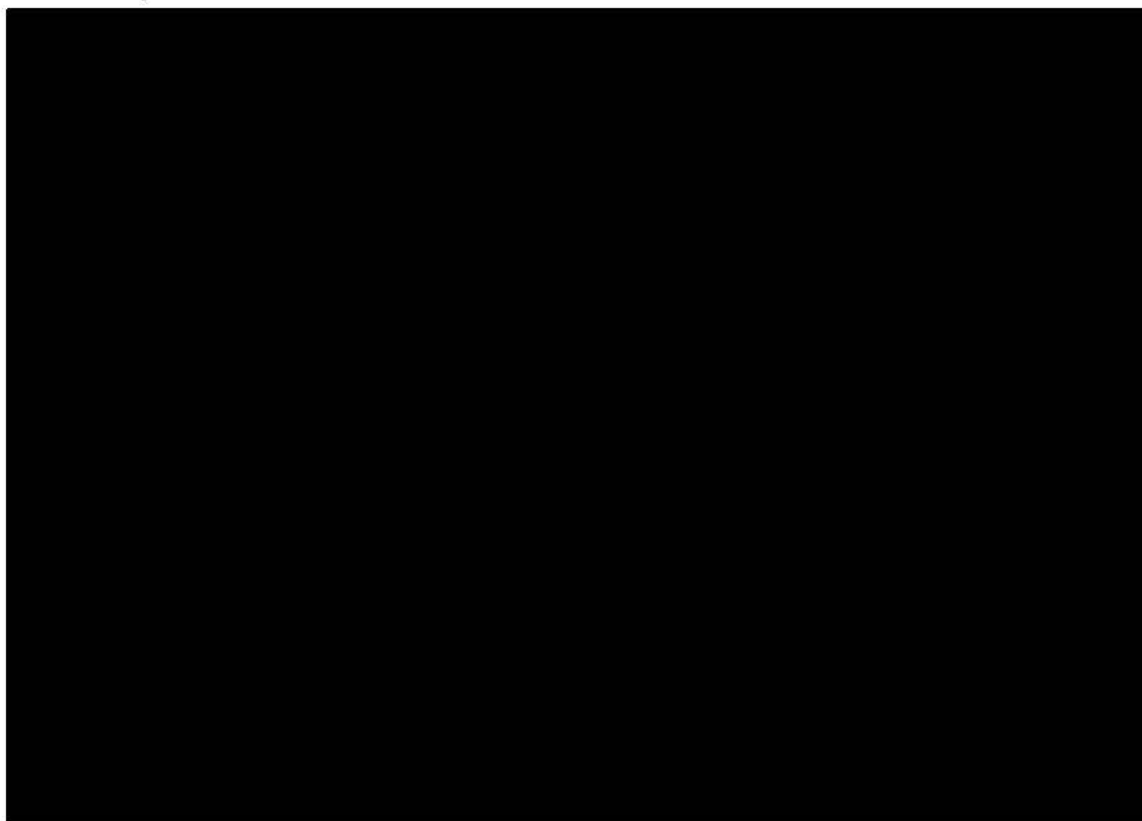


- B. Lack of meaningful segregation of duties:** Plaintiffs contend that Fairfield was aware that the Funds lacked any meaningful segregation of duties, because all key roles – that of broker, custodian, and investment manager – were consolidated in BLMIS/Madoff. Plaintiffs further contend that Fairfield was aware of the risks presented by such a structure – namely, that there was nothing to prevent BLMIS/Madoff from misrepresenting Fund trades and assets to Fairfield and others. Examples of supporting documents and testimony include:



² Documents and testimony identified in Appendix C may relate to multiple different issues, but may only be listed once herein so as to avoid unnecessary duplication.

C. Lack of and difficulty in performing due diligence on Madoff: Fairfield held itself out as providing due diligence for the funds that it managed. However, it took no action to verify with independent third parties, such as the DTC or purported counterparties, that Madoff executed the transactions on behalf of the Funds that he claimed to execute and that the Funds' assets existed. Instead, Fairfield either took Madoff's word for it, or was content to examine documents or computer screens that Madoff provided them, all of which were fabricated. In fact, Fairfield was aware that BLMIS/Madoff rebuffed even minimal efforts to obtain verification from independent parties that the reported trades had occurred and were being properly allocated to the Funds, and that the Funds' assets existed. Moreover, Fairfield was aware that Citco's belated and deficient attempts to conduct due diligence on Madoff as subcustodian were rebuffed when Madoff returned only a partially completed and inadequate due diligence questionnaire, and never responded to repeated subsequent requests for complete information. BLMIS/Madoff's refusal to permit meaningful due diligence made the risks associated with the Funds even more apparent to Fairfield. Fairfield failed to warn investors of any of these facts. Examples of supporting documents and testimony include:

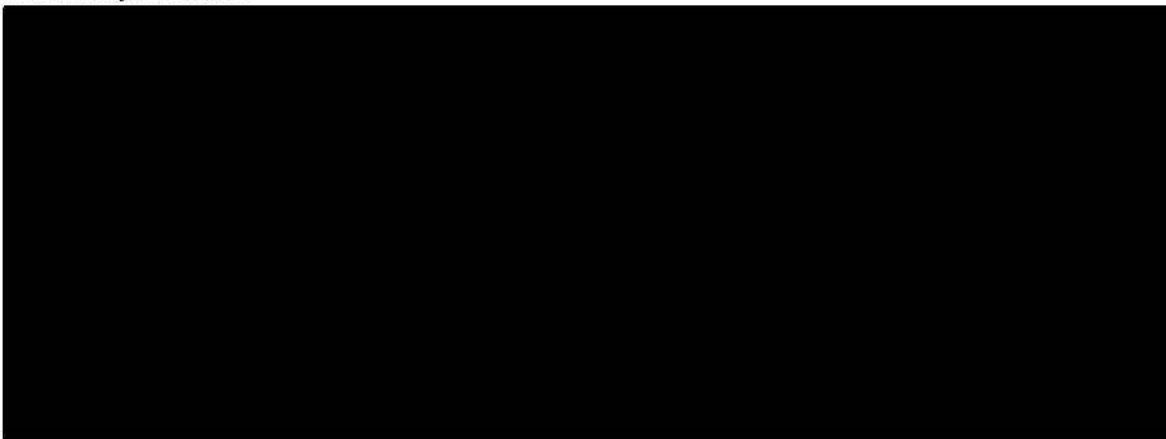


D. Misrepresentations to the Irish Stock Exchange and Plaintiffs concerning Citco's role as custodian and Madoff's discretion as investment: Plaintiffs contend that, until 2004, Fairfield recognized that Citco's role as custodian for the Fairfield Sentry Fund was being misrepresented to Plaintiffs and to the Irish Stock Exchange – namely, that Citco was serving as an independent custodian, when in fact, Citco was not an independent custodian. Rather, Fairfield knew BLMIS/Madoff held the Funds' assets in its capacity as

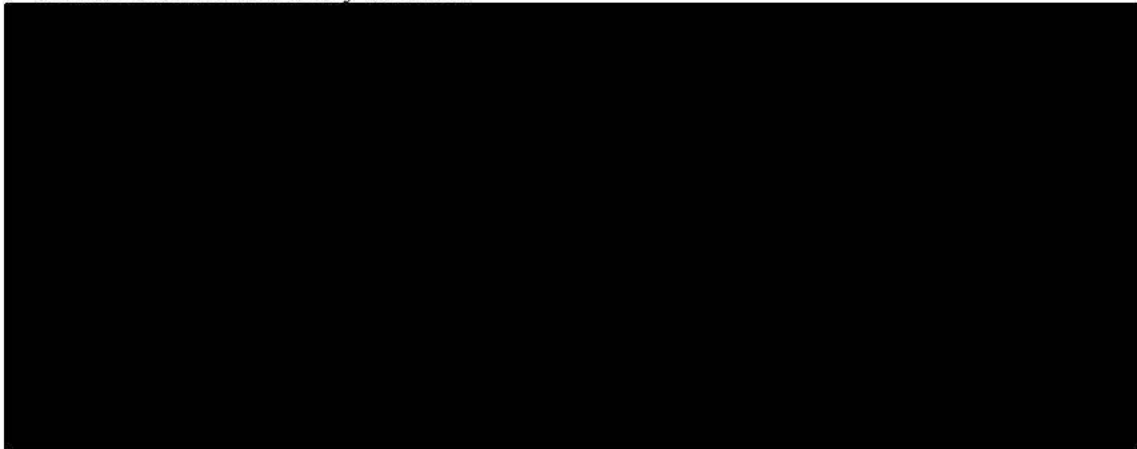
sub-custodian and Citco received all of its information about the Funds' trades and holdings only from BLMIS/Madoff.



Fairfield made similar misrepresentations about BLMIS/Madoff's discretion in Fairfield Sentry's offering memoranda distributed to Plaintiffs. Fairfield's knowledge of the misrepresentation made the risks associated with the Funds even more apparent to Fairfield. Fairfield failed to disclose any of the foregoing to Plaintiffs. Examples of supporting documents and testimony include:



E. Madoff's small, obscure auditor: Fairfield knew that Madoff/BLMIS was audited by Friebling & Horowitz, a small, obscure firm, and that such audits were wholly inadequate to address or alleviate the risks inherent in the structure of the Funds, the lack of segregation and independent verification of trades and assets, and other risks discussed above and below. Fairfield failed to disclose the inadequacy of Friebling & Horowitz to Plaintiffs, or the fact that no reputable audit firm was actually performing any tests at BLMIS/Madoff to confirm existence of the Funds' assets or that transactions Madoff/BLMIS reported had actually occurred. Examples of supporting documents and testimony include:

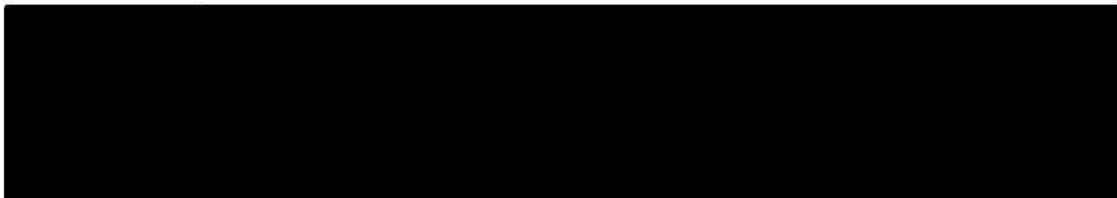




F. Lack of knowledge of Madoff's purported counterparties: Plaintiffs contend that Fairfield recognized that Madoff failed to disclose the counterparties to his options trades, and that if Fairfield had obtained such information, as standard practice requires, Fairfield would have been able to confirm the occurrence or non-occurrence of the trade with the independent counterparties. Fairfield never disclosed to Plaintiffs that BLMIS/Madoff was not disclosing his trade counterparties. Examples of supporting documents and testimony include:

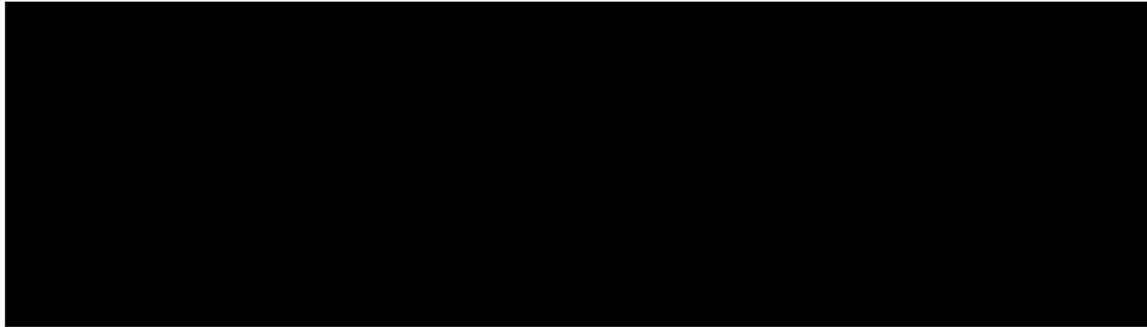


G. Madoff's evasive trading cycle: Plaintiffs contend that Fairfield recognized that Madoff's trading cycle involved exiting his entire equity position prior to the end of each quarter and investing solely in US Treasury securities, with the purpose of avoiding SEC reporting requirements. Plaintiffs contend that this indicated a substantial, elevated risk of fraud known to Fairfield, yet Fairfield never disclosed this aspect of Madoff's trading pattern to Plaintiffs. Examples of supporting documents and testimony include:



H. Madoff's refusal to provide a real time electronic data interchange (EDI): Plaintiffs contend that Fairfield recognized that BLMIS/Madoff's refusal to provide a real time electronic data interchange (EDI) reflecting his trades was inconsistent with industry practice, particularly given the type of securities being traded, and Fairfield actively sought to obtain an EDI feed for itself and Citco. However, Fairfield's efforts were substandard and ultimately fruitless. BLMIS/Madoff rebuffed any attempt to set up EDI between BLMIS/Madoff and Citco and/or Fairfield, which made the risks associated with paper tickets and the absence of EDI even more apparent. Following these failures, Fairfield took no further meaningful action to obtain EDI, or to warn investors about the lack of EDI, or Madoff's inexplicable refusal to provide EDI. Examples of supporting documents and testimony include:





I. Madoff's delay in providing trade tickets: Plaintiffs contend that Fairfield recognized that the delay between when BLMIS/Madoff purportedly executed a trade on behalf of the Funds and when BLMIS/Madoff sent Fairfield a confirmation of that trade increased the risk of fraud and that the minimal efforts Fairfield took to diminish the risk of fraud were rebuffed by Madoff, which itself increased Fairfield's awareness of the risk of fraud. Fairfield failed to disclose this risk to Plaintiffs. Examples of supporting documents and testimony include:

