

# Exhibit 16

**From:** Georgette Wong  
**Sent:** Monday, August 22, 2005 8:00:09 PM  
**To:** Rick Stockton  
**Subject:** FW: DeMarche Questionnaire

**Attachments:** DeMarche Questionnaire - 02-10-05 (2).doc

Aaaah, it will be so good when this is completed!

Want to divide and conquer?

Georgette Wong

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**From:** Kevin Okimoto  
**Sent:** Friday, March 11, 2005 1:00 PM  
**To:** Georgette Wong  
**Subject:** DeMarche Questionnaire

**DEMARCHE ASSOCIATES, INC.**  
**HEDGE FUND MANAGER QUESTIONNAIRE**

*Part I - Overall Organization*

Name of Firm: Sterling Stamos  
Address: 575 Fifth Avenue, 40th Floor  
City, State, Zip: New York, NY 10017  
Phone: (212) 485-4370 Fax: (212) 485-4371  
Contact: Georgette Wong/Kevin Okimoto Title: Investor Relations/Partner  
Date: February 1, 2005 Email: GWong@SterlingStamos.com/  
kokimoto@SterlingStamos.com

1. Organizational structure of firm (please include an organizational history and a description of the relationship of your firm/division to parent and affiliate companies):

Sterling Stamos' expertise in real estate, private equity, and hedge funds originated over four decades ago with the founding of Sterling Equities, a real estate development and investment concern, by Saul Katz and Fred Wilpon. After notable successes in Manhattan real estate development, the principals of Sterling Stamos made their initial hedge fund investment in 1984 to generate consistent absolute returns regardless of market condition. In 1992, Sterling Equities launched its first real estate fund, Sterling American Properties, and its first private equity fund in partnership with American Securities. Sterling Equities became the sole owner of the New York Mets in 2002.

The Katz, Wilpon, and Stamos families began jointly investing in 1998 with a select number of individual hedge funds. Realizing that the families needed to take an institutional approach to managing their assets, Mr. Katz and Mr. Wilpon joined efforts with Peter Stamos to create an integrated investment firm to manage the assets of high net worth families and institutions. Sterling Stamos became a formal entity when it opened its doors to outside investors in October, 2002. Sterling Stamos is jointly owned by the partners of Sterling Equities and senior members of the Sterling Stamos team.

2. Please describe the ownership structure of your firm. Kindly include the top five ownership positions and their percentage held. Describe any anticipated changes in firm ownership. Please provide a schedule detailing the percentages of the firm which are owned by active employees.

[Discuss with Jared and Jeremy]

3. Does your firm have an ownership succession plan, i.e. buy-sell agreement? If yes, please describe how the plan works, noting if there is a valuation formula in place and whether the plan covers death, disability, retirement, voluntary or involuntary termination, etc.

[Discuss with Jared and Jeremy]

4. How much does your organization have in assets under management? Please detail amounts managed in various product areas, e.g. domestic equities, domestic fixed, hedge fund, private equity, etc.

The Sterling Stamos team is fully dedicated to the hedge fund of funds it manages, the details of which are listed below. In addition, Sterling Equities is involved in several other businesses areas. Sterling Equities is focused on real estate development; Sterling American Properties is focused on real estate funds; American Securities Capital Partners is focused on traditional private equity funds; and the Wilpon and Katz families are owners of the New York Mets and Brooklyn Cyclones professional baseball organizations.

**Sterling Stamos AUM**

Date	Firm AUM	Security Fund AUM	Firm # Of Managers	Sec Fund # Of Managers
12/31/2004	\$1,200 MM	\$358 MM	66	34
12/31/2003	\$330 MM	\$97 MM	42	28
12/31/2002	\$49 MM	\$15 MM	17	17

5. Identify any governmental registrations (*please provide most recent registration copy, i.e., SEC Form ADV*):

Sterling Stamos is currently in the process of becoming a Registered Investment Advisor. The General Partner and Management Company are exempt from registration as a Commodity Pool Operator with the Commodity Futures Trading Commission under Rule 4.13(a) 3 and 4.13(a) 4.

6. Does your firm have any pending litigation?  Yes  No  
*If yes, please explain:*

7. Does your firm have any previous judgments/investigations?  Yes  No  
*If yes, please explain:*

8. Is your hedge fund organization covered by errors and omissions insurance? If yes, how much? List any other insurance types and amounts of coverage.

Sterling Stamos does not carry Errors & Omissions insurance.

9. What is your total number of employees? Who are the key people in your organization? Kindly provide a brief description of their responsibilities, experience, and tenure.

The currently has 31 employees. The investment team is lead by the firm's CEO, Peter Stamos, and is supported by an experienced team of professionals. The investment team includes three portfolio managers, five research analysts, and two portfolio advisors, all sharing the responsibility of sourcing, due diligence, selection, and monitoring of the Portfolio Managers. Shown below are the names and backgrounds of the primary portfolio decision makers for Sterling Stamos:

**Peter S. Stamos:** Mr. Stamos is the Chief Executive Officer of Sterling Stamos and is ultimately responsible for all investment decisions.

- Mr. Stamos was the Chief Executive Officer of Stamos Associates, Inc. (SAI), a healthcare and technology company that was acquired by Perot Systems, Inc., where he headed the merger and acquisition practice.
- Prior to the founding of SAI, Mr. Stamos was the Chief of Staff and Chief Economist for a U.S. Senator.
- Prior to working in the public sector, Mr. Stamos was a Principal with Booz Allen & Hamilton, a Senior Management Consultant with McKinsey & Company, and the Managing Partner of the Doblin Group.
- Mr. Stamos taught economics at Harvard University—where he received the Allen Young Award for Teaching Excellence—and at Stanford University, where he been a guest lecturer at the Graduate School of Business.
- Mr. Stamos serves on several boards and advisory boards, including the Board of Stanford University Hospitals and Clinics, where he is a member of the Finance and Audit Committees and is Chairman of the Investment Committee.
- Mr. Stamos earned a BA in economics and political science from Stanford University, where he was a Truman Scholar, received the Sterling Award, and graduated *Phi Beta Kappa* with Honors and Distinction. Mr. Stamos received a JD from Harvard Law School with Honors and a doctorate from Oxford University, where he was a Rhodes Scholar.
- Mr. Stamos currently resides in Hillsborough, California.
- Mr. Stamos is married with no children.

**Ashok Chachra:** Mr. Chachra is the Senior Portfolio Manager for Sterling Stamos and is responsible for portfolio manager sourcing, due diligence, selection, portfolio construction, risk management, and on-going portfolio monitoring.

- Prior to joining Sterling Stamos, he was a Senior Business Analyst with McKinsey & Company, focusing on assignments in the Financial Services and Healthcare industry sectors.
- Mr. Chachra worked in the high yield loan origination group at Chase Securities as well as in an analyst role at Morgan Stanley.
- Mr. Chachra earned a BS in Business Administration with University Honors from Carnegie Mellon University.
- Mr. Chachra currently resides in New York City.
- Mr. Chachra is single with no children.

**Saul B. Katz:** Mr. Katz is a General Partner of Sterling Stamos and is actively involved in the investment decisions as well as the management of Sterling Stamos.

- Mr. Katz is a Co-Founder and President of Sterling Equities. Mr. Katz directs Sterling Equities' day-to-day real estate operations. Mr. Katz also presides over Sterling Equities' non-real estate affiliates and subsidiary companies, which range from financial institutions to manufacturing, consulting, marketing, entertainment and retailing enterprises.
- Mr. Katz is President of the New York Mets and the Brooklyn Cyclones.
- Mr. Katz serves on the Boards of many nonprofit organizations and institutions in addition to being Honorary Chairman of the Board of the North Shore Long Island Jewish Health System.
- Mr. Katz is a Certified Public Accountant with a BS in Accounting, which he earned from Brooklyn College.
- Mr. Katz currently resides in Glen Cove, New York.
- Mr. Katz is married with three children.

**David M. Katz:** Mr. Katz is a General Partner of Sterling Stamos and is actively involved in the investment decisions as well as the management of Sterling Stamos.

- Mr. Katz joined Sterling Equities in 1987, where he now serves as Executive Vice President. Mr. Katz's real estate experience includes the development of commercial and residential properties, condominium conversions, and the evaluation of acquisition opportunities.
- Mr. Katz also presides over Sterling Equities' non-real estate affiliate company Changing World Technologies (CWT), where he is a Board member. CWT is a bio/energy company using the thermo-depolymerization process. Mr. Katz also sits on the Board of Renewable Environmental Solutions, a partnership of CWT and ConAgra foods that is focused on deploying the TDP in the agricultural market.
- Mr. Katz is a Board member of the New York Mets.
- Mr. Katz also sits on the Board of various philanthropic organizations. He graduated from Hofstra University where he earned his BA.
- Mr. Katz currently resides in Glen Cove, New York.
- Mr. Katz is married with two children.

10. Please provide a description of your investment professionals' compensation program. Kindly include percentages achievable through salary and bonus as well as carried interest and equity participation, etc. at various levels. Describe any anticipated changes in your compensation program.

All Sterling Stamos employees are salaried, with an opportunity for a discretionary bonus. Bonus levels range from 10% of salary to 100% of salary (specific details of compensation can be addressed in separate conversations). There have been no material changes to the compensation structures since the firm's inception in June of 2002.

- 11.(a) Hedge fund professional staff (#):

Screening / Acquisition	4 (Peter, Ashok, Cathy Tse, Catherine Lee)
Investment Management	5 (Peter, Ashok, Ellen, David K, Saul K)
Research	5 (Cathy Tse, Johnny, Rohit, Angella, Catherine Liu)
Portfolio Mgmt	2 (Ashok, Catherine Lee)
Finance/Mktg./Client Service	9(KB, KO, Kristina, Kai, Fatima, Georgette, Sam, Abby, Laurie)
Legal	2 (Jeremy, Jared)
Other professionals (please describe)	9 Operations & Administration (Chris, Spiro, Basil, Mari, Ilan, Maria, Gillian, Warren, Heather)
<b>Total Professionals</b>	<b>29</b>

- 11.(b) Total Number of Hedge fund employees: 31

- 12.(a) Number of investment professionals gained/lost:

	<b>Gained</b>	<b>Lost</b>
1999	n/a	n/a

2000	<u>n/a</u>	<u>n/a</u>	
2001	<u>n/a</u>	<u>n/a</u>	
2002	<u>3 (Peter, Ashok, Ellen)</u>	<u>0</u>	
2003	<u>1 (Ted)</u>	<u>0</u>	
2004	<u>5 (Cathy Tse, Rohit, Angella, Catherine Liu, Johnny)</u>		<u>0</u>
2005	<u>1 (Catherine Lee)</u>	<u>1 (Ted)</u>	

- 12.(b) Kindly list the senior management and/or investment professionals who have left the firm in the last three years. Describe their responsibilities and reason(s) for departure.

Tom Olds (June 2002 – August 2002). Position: Manager. Reason for departure: Pursue personal interests outside of the firm.

Noreen Harrington (October 2002 – July 2003). Position: Chief Investment Officer. Reason for departure: Pursue personal interests outside of the firm.

Derek S. Daley (January 2003 – October 2003). Position: General Counsel, Partner. Reason for departure: Pursue personal interests outside of the firm.

Scott Whitcher (January 2004 – January 2005). Position: Investor Relations, Partner. Reason for departure: Pursue personal interests outside of the firm.

Ted Conrads (August 2003 – January 2005). Position: Senior Analyst. Reason for departure: Pursue personal interests outside of the firm.

Contact information available upon request.

- 12.(c) Please list the senior management and/or investment professionals who have joined the firm in the last three years. Indicate the reason(s) they were hired.

Chris Stamos (December 2003 – Present). Position: Chief Operating Officer. Reason for hire: Manage and build out firm operations.

Catherine Liu (February 2004 – Present). Position: Sr. Analyst. Reason for hire:

Cathy Tse (March 2004 – Present). Position: Portfolio Team Manager. Reason for hire:

Kevin Barcelona (April 2004 – Present). Position: Chief Financial Officer. Reason for hire: Manage finance and fund administration groups.

Rohit Kumar (July 2004 – Present). Position: Associate. Reason for hire:

Angella Rainford (August 2004 – Present). Position Associate. Reason for hire:

Johnny Lee (November 2004 – Present). Position: Associate.

Catherine Lee (January 2005 – Present). Position: Private Equity Manager. Reason for hire: Launch the Private Equity Fund of Funds Product.

Jeremy Glaser (February 2005 – Present). Position: General Counsel and Sr. Vice President for Business Development. Reason for hire:

13. Please provide three-year hedge fund business plan (include maximum capacities at current staff levels – are there any expansion needs?):

There are currently four priorities for the firm: 1) build out investor relations function, 2) recruit an in-house counsel, 3) recruit an internal controller, and 4) launch private equity capability. The building out of the investor relations function entails the hiring of one, or perhaps two, seasoned professionals in this role. Sterling Stamos is approaching the size that warrants the hiring of inside counsel, and it is our intention to hire inside counsel within six months. In addition, the CFO is looking to hire a controller, as the firm has grown in assets, number of funds, number of clients, and number of service providers. Sterling Stamos strongly believes it can deliver additional value add to its clients through a pooled vehicle that can take advantage of special situations, private equity-like opportunities that it has access to via its hedge fund of funds relationships. The Sterling Stamos management team as a group is responsible for implementing these four priorities.

14.	Hedge fund investment participation offered:	<b>Assets (\$)</b>
	<input checked="" type="checkbox"/> Fund of Funds	_____
	<input type="checkbox"/> Separate Accounts - Discretionary	_____
	<input type="checkbox"/> Separate Accounts - Advisory	_____
	<input type="checkbox"/> Co-Investment	_____
	<input type="checkbox"/> Open-end Commingled Funds	_____
	<input type="checkbox"/> Closed-end Commingled Funds	_____
	<input type="checkbox"/> Other _____	_____
	<input type="checkbox"/> Other _____	_____

15. Total hedge fund assets under management:

	<b>Firm</b>	<b>Security Fund</b>
12/31/2002	\$49mm _____	\$15mm _____
12/31/2003	\$330mm _____	\$97mm _____
12/31/2004	\$1,200mm _____	\$358mm _____

16. Hedge fund client distribution (total assets under management): [SS to provide – data should be across all funds]

	<b>Assets (\$)</b>	<b># of Clients</b>
Corporate	_____	_____
Public	_____	_____
Taft-Hartley	_____	_____
Endowments/Foundations	_____	_____
Taxable	_____	_____
Individual	_____	_____
Other	_____	_____



17. Hedge fund client distribution (by mandate type): [SS to provide - data should be across all funds]

	Assets (\$)	# of Clients
Separately Managed Discretionary	_____	_____
Non-Discretionary	_____	_____
Taft-Hartley	_____	_____
Commingled fund of funds	\$1,200mm	_____
Other _____	_____	_____
Other _____	_____	_____

18. Number of hedge fund clients gained/lost: [SS to provide - data should be across all funds]

	Gained	Lost
1999	_____	_____
2000	_____	_____
2001	_____	_____
2002	_____	_____
2003	_____	_____
2004	_____	_____

[Could be something similar to this but for all funds: Sterling Stamos has gained all 100 investors since 10-01-02 (launch of Funds to outside investors). Less than five investors have made total redemptions from the Security Fund, L.P. since inception; these redemptions made up less than \$5 million in total assets.]

19. Hedge fund diversification (total assets under management): [SS to provide - data should be across all funds]

	Current value (\$)	% of total
Merger Arbitrage	_____	_____
Convertible Arbitrage	_____	_____
Risk Arbitrage	_____	_____
Fixed Income Arbitrage	_____	_____
Long/Short Equity	_____	_____
Equity Market Neutral	_____	_____
Short Selling	_____	_____
Distressed Securities	_____	_____
Foreign Exchange	_____	_____
Market Timing	_____	_____
Value	_____	_____
Growth	_____	_____
Emerging Markets	_____	_____
Macro Investing	_____	_____

Opportunistic	_____	_____
Other _____	_____	_____
Other _____	_____	_____
Other _____	_____	_____
Other _____	_____	_____

20. Kindly categorize above allocations under the following major hedge fund strategies. [SS to provide - data should be across all funds]

	Current Value (\$)	%	Range
Directional Trading	_____	_____	_____
Relative Value	_____	_____	_____
Specialist Credit	_____	_____	_____
Stock Selection	_____	_____	_____

21. Hedge fund investment size (total assets under management): [SS to provide - data should be across all funds]

	Current value (\$)	% of total
\$1 - \$5 million	_____	_____
\$6 - \$10 million	_____	_____
\$11 - \$20 million	_____	_____
\$21 - \$50 million	_____	_____
\$51 - \$100 million	_____	_____
Over \$100 million	_____	_____

22. Please provide chronology of all hedge fund products previously offered:

[SS to provide - data should be across all funds]

N/A

Year	Name and Type (direct, limited partnership, Fund of funds, etc)	Discretionary/ Non-Discretionary	Cumulative Return (thru 9/30/03)
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

23. Hedge fund products currently offered:

[SS to provide – data should be across all funds]

Name	Type (direct, ltd. partnership, fund of funds, etc)	Current value (\$)	% of total	Status
Liquidity Fund	LP, fund of funds	Redacted	Redacted	Open
Liquidity Fund Offshore	Ltd., fund of funds			Open
Friend and Family Fund	LP, fund of funds			Limited
Security Fund	LP, fund of funds			Open
Security Fund Offshore	Ltd., fund of funds			Open
Levered Fund	Ltd., fund of funds			Limited
Growth Fund	LP, fund of funds			Limited
Growth Fund Offshore	Ltd., fund of funds			Limited
Acceleration Fund	LP, fund of funds			Limited
Acceleration Fund Offshore	Ltd., fund of funds			Limited
Private Equity Fund	LP, fund of funds			Open

24. Hedge fund services currently offered:

- Recommend & purchase partnership investments
- Recommend & purchase direct investments
- Full investment due diligence
- Negotiating terms and conditions
- Monitoring
- Recommend and sell partnership investments
- Valuation
- Policy & procedures implementation
- Education
- International capabilities (please describe)
- Other (please describe)

25. Does the company have any SEC registered funds?

Sterling Stamos is currently not registered with any regulatory agencies.

26. Does the company maintain a written risk management policy? If yes, provide a copy.

See attached Exhibit I (Risk Management Summary – November 2004).

27. Does the firm maintain a firm wide risk management system including operational, legal, reputation and business risks? please describe.

Risk is managed through diversification across strategy, sub-strategy, and fund manager. In addition, risk is managed through close monitoring of managers and peer group analysis.

- Portfolio Management Redundancy – One of the most effective ways to manage key man risk is to develop portfolio management redundancies within the firm. Sterling Stamos currently has eight full-time Portfolio Team members who are responsible for manager identification, due diligence, ongoing monitoring, and strategy research. While Peter Stamos is responsible for all final investment decisions of the firm, Ashok Chachra is responsible for all day-to-day decisions relating to the portfolio. In addition to the input they receive from the Portfolio Team, Mr. Stamos and Mr. Chachra rely on Ellen Horing, Senior Portfolio Advisor, who has ten years of fund-of-funds portfolio management experience, to help position the portfolio to capitalize on investment opportunities in various market environments. This team constantly monitors the hedge fund industry, as well as economic and market developments to formulate our approach to asset allocation. The firm holds formal market review meetings with the Portfolio Team once a month to discuss the economy, markets, and investments. This formal approach stimulates group discussions on economic / investment opportunities and allows the whole team to contribute to the development of a macroeconomic perspective on the portfolio, thus reducing our dependence on any one key individual. In addition to the input provided by each member of the Portfolio Team, we also receive input from outside participants and advisors during the monthly Market Calls.

- Reliance Upon Underlying Fund Managers Macroeconomic Perspective – Although Sterling Stamos develops a macroeconomic approach to capitalize on investment opportunities, the firm relies heavily on the perspective developed by each underlying hedge fund manager in the portfolio. The fund-of-fund structure has the advantage of leveraging the long track records and experience of each manager to position their portfolio as they see fit in changing market environments. Potential investors should feel comfortable that a fund-of-fund structure reduces the dependence on any one key man having too much control over actual trading decisions and portfolio positioning. Rather than relying upon one key man to make all investment decisions, the firm relies upon approximately 37 of the brightest minds in the business to make sound investment decisions.
- Allocation Shifts – From an allocation perspective, the primary guidelines are established for the fund to hit its target risk/return objectives. Given the lock up requirements of underlying hedge fund managers, allocation changes in a fund-of-fund structure are typically made over a period of time. As a result, allocation shifts driven by the firm's perspective on the macroeconomic environment are more tactical than strategic. This investment structure again reduces the dependence on any one key individual to make investment decisions on a daily basis.
- Alignment of Interests and Family Assets – Finally, it is important to remember the origins of the firm. Sterling Stamos was created to develop an institutional approach to managing the assets of the Katz, Wilpon, and Stamos families. The firm manages the families' assets in its funds, so Mr. Stamos' incentives are aligned with the success of the firm and, ultimately, the management of his own family's assets.

28. Is the fund administration performed in-house? {SS to provide}

- What are the tasks of the fund administration?
- How often does the firm calculate/estimate the NAVs of the products?
- Does an independent party review those calculations?
- What systems are used for the fund administration?

29. How much of the firm's or partners' money is invested in the firm's products?

Approximately 20% of the key principals' liquid net worth is invested in the Fund.

30. Do you employ a dedicated risk manager?

Rohit Kumar is responsible for risk management. Mr. Kumar is supported by analyst Catherine Liu, and both report to Ashok Chachra.

31. Are there any conflicts of interests the investor should be aware of?

Certain inherent conflicts of interest may arise as the General Partner and the Management Company provide investment management and other services to other investment Partnerships operated by the Firm. In addition, Ellen Horing provides investment management services to her own fund of funds. Such other accounts may have investments with certain Portfolio Managers utilized by the Partnership. To the extent that such Portfolio Managers limit the amount of assets and accounts that they will manage, Sterling Stamos may be required to choose between the Partnership and such other clients in allocating assets to such Portfolio

Managers. In addition, one or more of the Portfolio Managers may be affiliated with the General Partner.

Completed by:	_____	Title:	_____
Signature:	_____	Phone:	_____
Date:	_____	Fax #:	_____

**DEMARCHE ASSOCIATES, INC.**  
**HEDGE FUND MANAGER QUESTIONNAIRE**

*Part II - Vehicle Specific*

Name of Firm: Sterling Stamos

1. Please list your current hedge fund product(s) available for investment:

<b>Product</b>	<b>Vehicle Type</b>
Security Fund _____	Fund of Funds _____
_____	_____
_____	_____

2. Name of vehicle: Sterling Stamos Security Fund, L.P. \_\_\_\_\_

3. Inception date of vehicle: October 2002 \_\_\_\_\_

4. Legal structure of vehicle (i.e., fund-of funds; open-end commingled, etc.)  
fund of funds \_\_\_\_\_

5. Does the investment manager, as specified in the legal documents, qualify as an ERISA fiduciary?  
 Yes  No *If no, please explain.*

*However, Sterling Stamos is currently in the process of becoming a Registered Investment Advisor. The firm intends to complete the registration process by the end of the first quarter 2005. This will allow the firm to accept participation by ERISA plans.*

6. Please describe your investment performance objective. Include the risk/return objectives of this product. What is your preferred benchmark for this product? To which universe of performance should this product be compared? Kindly explain your preferences.

The Security Fund is an alternative to fixed income investments. This fund is structured through a multi-manager portfolio of hedge funds that seeks to achieve an annual return of 8 – 10% with low annual volatility of 2 – 4%.

7. What is your philosophy regarding the use of leverage?

The Security Fund, L.P. does not employ leverage at the fund of funds level. Some select underlying strategies do use leverage (such as fixed income arbitrage). Sterling Stamos does not impose any strict limits on leverage in connection with underlying managers, however, the firm has not does not foresee using any managers with greater than 15 times leverage.

8. What is your philosophy regarding transparency for clients, consultants, etc.? How is information made available (i.e. monthly, quarterly reports, web site, etc.?)

Sterling Stamos has trust-based relationships with its LPs, and as such, openly shares all appropriate underlying hedge fund manager information with its LPs. Many hedge funds of funds are resistant to disclosing the names of the underlying Portfolio Managers in their fund. Sterling Stamos is committed to providing as much information to its investment partners as practicable, including the names and the strategies of its underlying Portfolio Managers.

9. Vehicle size:

a.	If existing vehicle:	12/31/99	
		12/31/00	
		12/31/01	
		12/31/02	\$15 MM
		12/31/03	\$97 MM
		12/31/04	\$358 MM

- b. What are the minimum and maximum investments accepted?

The minimum initial subscription by an investor is \$5 million for an Interest, subject to the discretion of the General Partner to accept lesser amounts. Limited Partners may make additional capital contributions of at least \$1 million, subject to the discretion of the General Partner to accept lesser amounts.

- c. What is the maximum size this fund will be allowed to reach?

[SS to provide]

- d. If proposed vehicle: N/A

At what \$ level will initial investment be made: \_\_\_\_\_

Subscription period (if applicable): \_\_\_\_\_

List all known closings, committed capital and number of investors.

10. Please indicate the professional team members serving on this product. Indicate any changes since product inception. Kindly detail team responsibilities, experience, tenure with your firm and tenure on this product. Please indicate any other products on which this team or members of this team have responsibilities. What percentage of this team's time will be spent managing this product?

Please see response to #9 in Part I.

11. What are the team incentives? How are they tied to the success of this product?



Please see response to #10 in Part I.

12. Investment professionals (this vehicle): ~~SS to provide for Security Fund only~~

Screening/Acquisition staff \_\_\_\_\_  
Investment managers \_\_\_\_\_  
Portfolio managers \_\_\_\_\_  
Mktg/Client service \_\_\_\_\_  
Other \_\_\_\_\_

13. Current number of clients: 100

14. Clients gained/lost: See below

Sterling Stamos has gained all 100 investors since 10-01-02 (launch of Funds to outside investors). Less than five investors have made total redemptions from the Security Fund, L.P. since inception; these redemptions made up less than \$5 million in total assets.

	Gained		Lost	
	\$	#	\$	#
2000	_____	_____	_____	_____
2001	_____	_____	_____	_____
2002	_____	_____	_____	_____
2003	_____	_____	_____	_____
YTD 2004	_____	_____	_____	_____

15. Current number of investments, if established vehicle: 34  
Expected number of investments, if new vehicle: N/A

16. Investment allocations: (use estimates, targets or ranges if new vehicle) ~~SS to provide for Security Fund only~~

	Current value (\$)	%	Range
Merger Arbitrage	_____	_____	_____
Convertible Arbitrage	_____	_____	_____
Risk Arbitrage	_____	_____	_____
Fixed Income Arbitrage	_____	_____	_____
Long/Short Equity	_____	_____	_____
Equity Market Neutral	_____	_____	_____
Short Selling	_____	_____	_____
Distressed Securities	_____	_____	_____
Foreign Exchange	_____	_____	_____
Market Timing	_____	_____	_____
Value	_____	_____	_____

Growth	_____	_____	_____
Emerging Markets	_____	_____	_____
Macro Investing	_____	_____	_____
Opportunistic	_____	_____	_____
Other _____	_____	_____	_____
Other _____	_____	_____	_____
Other _____	_____	_____	_____
Other _____	_____	_____	_____

17. Kindly categorize above allocations under the following major hedge fund strategies. [SS to provide - for Security Fund only]

	Current Value (\$)	%	Range
Directional Trading	_____	_____	_____
Relative Value	_____	_____	_____
Specialist Credit	_____	_____	_____
Stock Selection	_____	_____	_____

18. Investment sizes included: (use estimates, targets or ranges if new vehicle) [SS to provide - for Security Fund only]

	Current value (\$)	%	Range
\$0 - \$5 million	_____	_____	_____
\$6 - \$10 million	_____	_____	_____
\$11 - \$20 million	_____	_____	_____
\$21 - \$50 million	_____	_____	_____
\$51 - \$100 million	_____	_____	_____
Over \$100 million	_____	_____	_____

19. Ten largest investments (or funds): (use estimates, targets or ranges if new vehicle) [SS to provide - for Security Fund only]

	Current Value (\$)	%	Range
Sterling Stamos Growth Fund	42.7 MM	11.9	
Fortress	Redacted		
D.E. Shaw	Redacted		
Farralon	Redacted		
Long Horizons	23.2 MM	6.5	
Ascot Partners	22.6 MM	6.3	
Perry	Redacted		
Bayou	16.5 MM	4.6	

Sterling Stamos Acceleration Fund 15.3 MM 4.3

Footbridge FLT

20. Use of leverage: Average: \_\_\_\_\_ Range: \_\_\_\_\_

The Security Fund, L.P. does not employ leverage at the fund of funds level.

21. Describe the contribution process.

The minimum initial subscription by an investor is \$5 million for an Interest, subject to the discretion of the General Partner to accept lesser amounts. Limited Partners may make additional capital contributions of at least \$1 million, subject to the discretion of the General Partner to accept lesser amounts.

22. Describe your redemption process and any investor liquidity issues.

Generally, each Limited Partner has the right, upon 90 days' prior written notice to the General Partner, to withdraw all or any portion of such Limited Partner's capital account as of the last day of the fourth full fiscal quarter following the date such capital account was established (the "Lock-Up Period"), and thereafter as of the last day of any fiscal quarter. Distributions of withdrawal proceeds will generally be made within 30 days after the applicable Withdrawal date.

Based on the September 30, 2004 Security Fund, L.P. allocation, it would take 36 months to liquidate 100% of the portfolio. The maximum lock-up period for any of the underlying investment managers is 36 months, the minimum is 1 month, and the weighted average is 9.5 months.

23. Describe governance, if applicable.

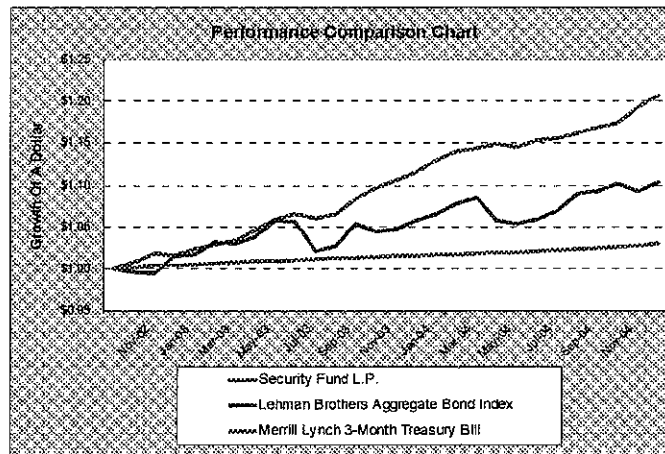
[SS to provide]

24. Describe your investment philosophy for this product. Where should it fall on the risk/return spectrum? Do you view it as a substitute for a particular traditional asset class? Does it fit into an array of various risk/return products you offer?

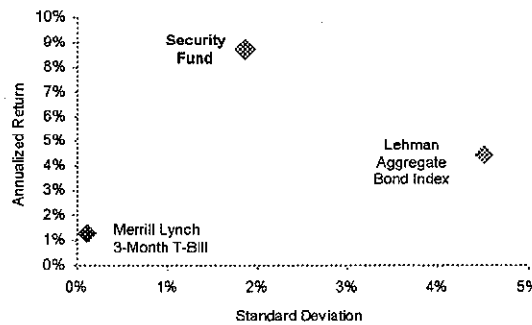
The Fund has generated consistent investment returns in tumultuous market conditions. Since opening to investors in October 2002, the Fund has generated strong risk-adjusted returns, and more importantly, has demonstrated an ability to preserve capital during tumultuous market conditions. Through the period ending December 2004, the Fund has generated an annualized net return of 8.8%, an annualized standard deviation of 1.9%, and an annualized Sharpe ratio of 3.5 (with a risk free rate of 2.25%). The Fund targets investment returns, net of all fees and expenses, of between 8% and 10%, with low annual volatility of between 2% and 4%.

The Fund has been structured primarily to generate moderate absolute returns, regardless of equity and fixed income market conditions. Many investors view the Fund as an alternative, or complement, to fixed income exposure. Given that the Fund has been constructed to be absolute return oriented, it may be true that no ideal "benchmark" exists. However, for comparison purposes, it is useful to show relevant comparative indices or proxies when evaluating performance. The chart below shows how the Fund has performed versus the Lehman Brothers

Aggregate Bond Index and the Merrill Lynch 3-Month Treasury Bill Index since it opened to outside investors in October 2002.



Through the period ending December 2004, the Fund has generated an annualized net return of 8.8%, an annualized standard deviation of 1.9%, and an annualized Sharpe ratio of 3.5 (with a risk free rate of 2.25%). The Fund targets investment returns, net of all fees and expenses, of between 8% and 10%, with low annual volatility of between 2% and 4%. The following chart compares the risk/return profile of the Fund to that of certain investment indices.



25. Please discuss Unrelated Business Taxable Income. How likely is it that investors will be exposed to UBTI?

[SS to provide]

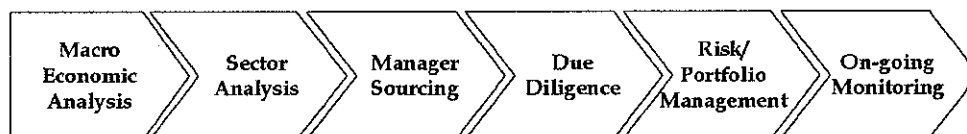
26. Describe any databases or other deal flow sources, such as placement agents, used in your selection process. How many funds do you monitor?

[SS to provide]

27. What is your screening process to get to your “investible” universe? What are the quantitative criteria for your “working” list?

#### Identification and Evaluation of Portfolio Managers

The Fund has combined strict guidelines, discipline, and a consistent approach in its evaluation of prospective Portfolio Managers. The process begins with a forward-looking approach to allocate assets across hedge fund strategies, as depicted below, beginning with an overall macroeconomic and sector analysis:



#### Macro Economic and Sector Analysis

Sterling Stamos CEO Peter Stamos, an economist by background, serves in various board and advisory roles to elite academic, political, and philanthropic institutions in connection with investment and economic policy. It is within these board and advisory forums that Mr. Stamos is able to engage in dialogue with many of the most progressive and influential thinkers of our time regarding global economic dynamics.

Integrating the insights of Mr. Stamos, the investment team seeks to identify key macro economic trends based upon fundamentals, technicals, and liquidity. These results are the foundation in determining the potential investment opportunities and risks among investment asset classes and geographies.

The macro policy is a key input to the sector analysis. The investment team determines the directional portfolio concentrations to specific hedge fund strategies based on the macro economic opportunity set and various risk analyses.

A macro economic/market sector view is established and integrated into the construction of the Sterling Stamos portfolios. The investment team’s macro economic/sector view continuously evolves.

#### Sourcing and Investment Criteria

Prospective Portfolio Managers are identified and sourced through multiple channels, including, but not limited to, internal contacts, industry contacts, strategic contacts, industry events, and commercial databases. The investment team leverages its unique network of hedge fund managers and contacts in order to gain capacity and achieve desired portfolio construction.

Transparency of the underlying Portfolio Managers is critical, particularly because Sterling Stamos generally provides a high degree of transparency to its investment partners. Position level details of Portfolio Managers, as well as performance and risk metrics, must be accessible to the investment team on a periodic basis (weekly or monthly).

Prospective Portfolio Managers are analyzed both on a quantitative and qualitative basis. A sample of the evaluation criteria are listed below:

- *Quantitative Analysis:* The investment team filters the broad universe of hedge fund managers to identify “best in class” Portfolio Managers by evaluating quantitative factors such as:

- o Historical performance statistics
  - o Performance attribution
  - o Portfolio exposure
  - o Volatility analysis
  - o Leverage impact
  - o Diversification
  - o Correlation with various market and portfolio factors
- *Qualitative Analysis:* The investment team also evaluates several qualitative factors. For each Portfolio Manager allocation, the investment team must first establish an understanding of the Portfolio Manager and his or her strategy, team, and approach. Through multiple face-to-face meetings, the investment team seeks to analyze various aspects of the Portfolio Manager's business including:
    - o Quality, reputation, and consistency of the management team
    - o Demonstrated superior investment skills
    - o Operational capabilities and stability
    - o Decision-making processes
    - o Transparency and openness
    - o Clearly articulated and repeatable investment strategy
    - o Consistency of past returns and assets under management
    - o Amount of personal investment
    - o Other intangible considerations

The investment team's objective is to construct a "basket" of Portfolio Managers, a hedge fund of funds, which collectively implements a wide range of diverse strategies, markets, and asset classes in order to mitigate the exposure to any one strategy, market, or asset class. The investment team carefully considers the impact of an allocation to a new Portfolio Manager on the risk/return characteristics of the overall portfolio.

#### **Due Diligence and Monitoring**

The investment team actively employs rigorous up-front due diligence on prospective Portfolio Managers and applies the same rigor to the ongoing monitoring of Portfolio Managers already in the Fund. A sample of the due diligence process is described below:

- *Data Gathering / Analysis:* Prior to an initial meeting with a prospective fund manager, the due diligence process starts by gathering information on the fund-specific strategy, including monthly returns, performance attribution, legal documents, audited financials, proof of experience, and references for each manager. Performance, liquidity, and correlations between prospective Portfolio Managers and existing Portfolio Managers in the Fund are analyzed to identify whether or not to conduct follow-up interviews.
- *Interviews:* Phone interviews and on-site visits are used to gain an understanding of investment idea generation, philosophy of investing, investment strategy outlook, portfolio construction, differentiating factors from peer group, position-level data, decision-making rules, execution process of trades, quality of team members, portfolio pricing, and risk management procedures.
- *Operational / Business Considerations:* Significant emphasis is placed on operational due diligence, which includes infrastructure quality, risk management protocol, compensation structure, management size for assets under management, portfolio liquidity, reference checks, prime brokerage relationships, and access to credit.
- *Monitoring Considerations:* The asset class and strategy of the underlying Portfolio Manager is monitored on an on-going basis to identify opportunities and

key events. Monthly or bi-monthly performance is compared with the performance of the associated market/asset class to monitor Portfolio Manager performance against the opportunity set. Regression analysis, style drift analysis, and value-at-risk analysis are performed at both the Fund level and the Portfolio Manager level. The investment team will withdraw the Fund's capital from a Portfolio Manager that it believes has deviated from its stated investment strategy, or that consistently underperforms versus its peers.

#### Investment Decision

The investment team develops the strategy, sub-strategy, Portfolio Manager, and portfolio construction recommendations. Investment decisions are made via entire investment team consensus, with Peter Stamos having final decision-making authority. An investment committee meets quarterly to discuss the market environment and Fund allocations.

28. Describe your investment process detailing fund age, size, strategy, sector and individual investment constraints, as well as allocation approach, due diligence process, and internal decision-making approaches. What is the number of funds that reach your "approved" list status?

Please see above.

29. Please discuss your approach to portfolio construction. How do you establish targets, limits, or ranges for directional trading, relative value, specialist credit, and stock selection strategies? Are risk models, optimization, or other quantitative techniques employed?

Please see above.

30. What are the limits for the number of funds in the portfolio?

On average there have been about 25 underlying investment managers in the Security Fund, L.P. The fewest investment managers held was 12, which was the fund makeup at its launch. The maximum number of underlying managers held is 34, which represents the current makeup of the Security Fund L.P.

31. What size position (% of total capitalization) do you purchase in an investment (partnership?)

[SS to provide]

32. Please address the following issues: [SS to provide]

\_\_\_\_\_ Lead investor

\_\_\_\_\_ Closed or blue chip fund access

\_\_\_\_\_ Follow on and brand name versus first time groups

33. Describe your portfolio monitoring and risk management strategies. Please address:

\_\_\_\_\_ Risk/return objectives                      \_\_\_\_\_ Transparency  
\_\_\_\_\_ Variance from objectives                  \_\_\_\_\_ Fund turnover  
\_\_\_\_\_ Optimization                                    \_\_\_\_\_ Audit process  
\_\_\_\_\_ Risk Models

See attached Exhibit I (Risk Management Summary – November 2004).

Please see above for a discussion regarding portfolio monitoring procedures.

34. Describe your process for ongoing monitoring of the individual funds within the portfolio.

Please see above.

35. What is your sell discipline? Under what circumstances would a fund be sold? What level of turnover should be anticipated?

Continuous evaluation via weekly risk meetings, bi-monthly conference calls, and quarterly visits to the managers serve to constantly support our conviction in our underlying managers. When there is a true violation of the original criteria for hiring a particular manager into the portfolio (business risk is increasing, personnel changing, increasing opaqueness, a shift in investment strategy, etc.), then the manager may have its allocation reduced or pulled altogether. The portfolio team must always have strong conviction that the manager would be hired again today – the portfolio team is always a “buyer” or a “seller” of underlying portfolio managers.

36. What is your policy for allocating commitments among client accounts? Please address any conflict of interest issues regarding direct or co-investment programs.

As of December 2004, no more than 30% of the Fund’s capital is allocated to any single sub-strategy. The risk-mitigating benefits of diversification are evident in the Fund, as the underlying sub-strategies have low correlations to each other. Sterling Stamos continually reviews its Fund asset allocation to determine the optimal portfolio mix for the current investment environment.

37. Please address any conflict of interest (existing or potential) between your firm’s activities, services performed for other clients, personal investment activity, etc.):

Certain inherent conflicts of interest may arise as the General Partner and the Management Company provide investment management and other services to other investment Partnerships operated by the Firm. In addition, Ellen Horing provides investment management services to her own fund of funds. Such other accounts may have investments with certain Portfolio Managers utilized by the Partnership. To the extent that such Portfolio Managers limit the amount of assets and accounts that they will manage, Sterling Stamos may be required to choose between the Partnership and such other clients in allocating assets to such Portfolio Managers. In addition, one or more of the Portfolio Managers may be affiliated with the General Partner.

38. Does the Fund of Funds hold any of the company's own funds?



No

38. List all fees associated with vehicle (include both fund-of-funds and partnership fees where applicable):

Acquisition	<u>none</u>
Management	<u>1% per annum</u>
Disposition	<u>none</u>
Incentive	<u>5% with high water mark</u>
Other (please describe)	<u></u>

39. Please provide quarterly performance history for this product. If it is a new vehicle, provide performance of a similar representative portfolio.

	2002	2003	2004	2005
January				
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				
YTD				

Redacted

*Unaudited net returns*

Source: Sterling Stamos analysis.

1. October 2002 marks the official offering date to outside investors.
2. Based on estimate as of 2/10/05.

40. Please provide quarterly performance history for other products that have been offered by your firm.

[SS to provide data should be across all funds]

See attached Exhibit II (DeMarche Performance Data)

Completed by:	_____	Title:	_____
Signature:	_____	Phone:	_____
Date:	_____	Fax #:	_____

## Glossary

<b>Convertible Arbitrage:</b>	Long a convertible bonds and short the underlying equity thereby monetizing the embedded option.
<b>Distress Securities:</b>	In situations of defaults and bankruptcies, investing long in bank debt while shorting the common stock or unsecured bonds of companies under financial stress.
<b>Equity Market Neutral:</b>	Use statistical arbitrage and pairs trading strategies to exploit pricing anomalies in the market or use equal allocations of long and short positions to reduce market exposure.
<b>Long/Short Equity:</b>	Combined long and short equity positions to control the systematic risk in a portfolio in order to focus on stock selection. Leverage usage can approach 100%.
<b>Macro Funds:</b>	Utilize fundamental and technical analysis to evaluate currencies, interest rates, equities, and commodities in the cash and derivative markets. Take positions based on economic trends. Leverage is employed opportunistically.
<b>Merger Arbitrage:</b>	A long position in a target company and a short position in the acquiring company in order to capture the deal spread. May also take inverse positions in order to profit from unsuccessful mergers and a widening of the deal spread.
<b>Relative Value Funds:</b>	Speculation whether price differentials will narrow or widen.
<b>Sector Funds:</b>	Specialize in particular segments of the equity markets such as technology, healthcare of small cap stocks.

## Glossary

<b>Strategy</b>	<b>Description</b>	<b>Sub-Strategies</b>
<b>Directional Trading:</b>	Directional trading strategies are based upon speculation of market direction in multiple asset classes. Both model-based systems and subjective judgement are used to make trading decisions. Least predictable, most notoriety.	Discretionary Trading Macro Trading Systems Trading
<b>Relative Value:</b>	Relative value strategies focus on spread relationships between pricing components of financial assets. Market risk is kept to a minimum. Many managers use leverage to enhance returns.	Convergence Arbitrage Merger Arbitrage Statistical Arbitrage
<b>Specialist Credit:</b>	Specialist credit strategies are based around lending to credit sensitive issuers. Funds in this strategy conduct a high level of due diligence in order to identify relatively inexpensive securities.	Distressed Securities Positive Carry Private Placements
<b>Stock Selection:</b>	Stock selection strategies combine long and short positions, primarily in equities, in order to exploit under and overvalued securities. Market exposure can vary substantially.	Long Bias No Bias Short Bias Variable Bias