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Fairfield Sentry Limited

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I. Overview

FGG Firm Profile

- **Established in 1983, Fairfield Greenwich Group (“FGG”) is one of the largest, most experienced alternative asset managers, with approximately USD \$15.5 billion in client and firm assets under management**
 - Independent employee-owned firm with over 110 employees, 17 of whom are shareholders
 - Offices in New York, London, and Bermuda, and representative offices in the U.S., Europe, Latin America, and Asia; joint venture in Singapore
 - FGG entities are: registered with the U.S. SEC as an investment adviser and broker-dealer; authorized and regulated by the U.K. Financial Services Authority; a broker-dealer and member NASD and SIPC; registered with the Monetary Authority of Singapore
 - Client base includes: family offices, financial advisors, government authorities, pension funds, private banks, and other institutional investors
- **Four main lines of business:**
 - Over 25 fully transparent single manager and multi-manager/multi-strategy vehicles with complete portfolio transparency with AUM of approximately USD \$9.4 billion
 - Manages funds of hedge funds with AUM of more than USD \$4.4 billion
 - Raises capital with best-of-breed single manager hedge funds with AUM of more than USD \$665 million
 - Manages other alternative investment vehicles with AUM of over USD \$1.0 billion

II. Investment Philosophy & Approach

Investment Philosophy – Capital Preservation

FGG's investment philosophy requires that managers maintain **capital preservation** as a core tenet and adhere to the following principles:

- **Full Transparency**

- From all managers included in multi-strategy funds, for FGG portfolio analysis and risk monitoring

- **Liquid Portfolios**

- Managers hold relatively liquid securities

- **Low Correlation**

- To broader markets and other FGG Managers

- **Low Relative Leverage**

- At manager level and portfolio level

- **Low Volatility**

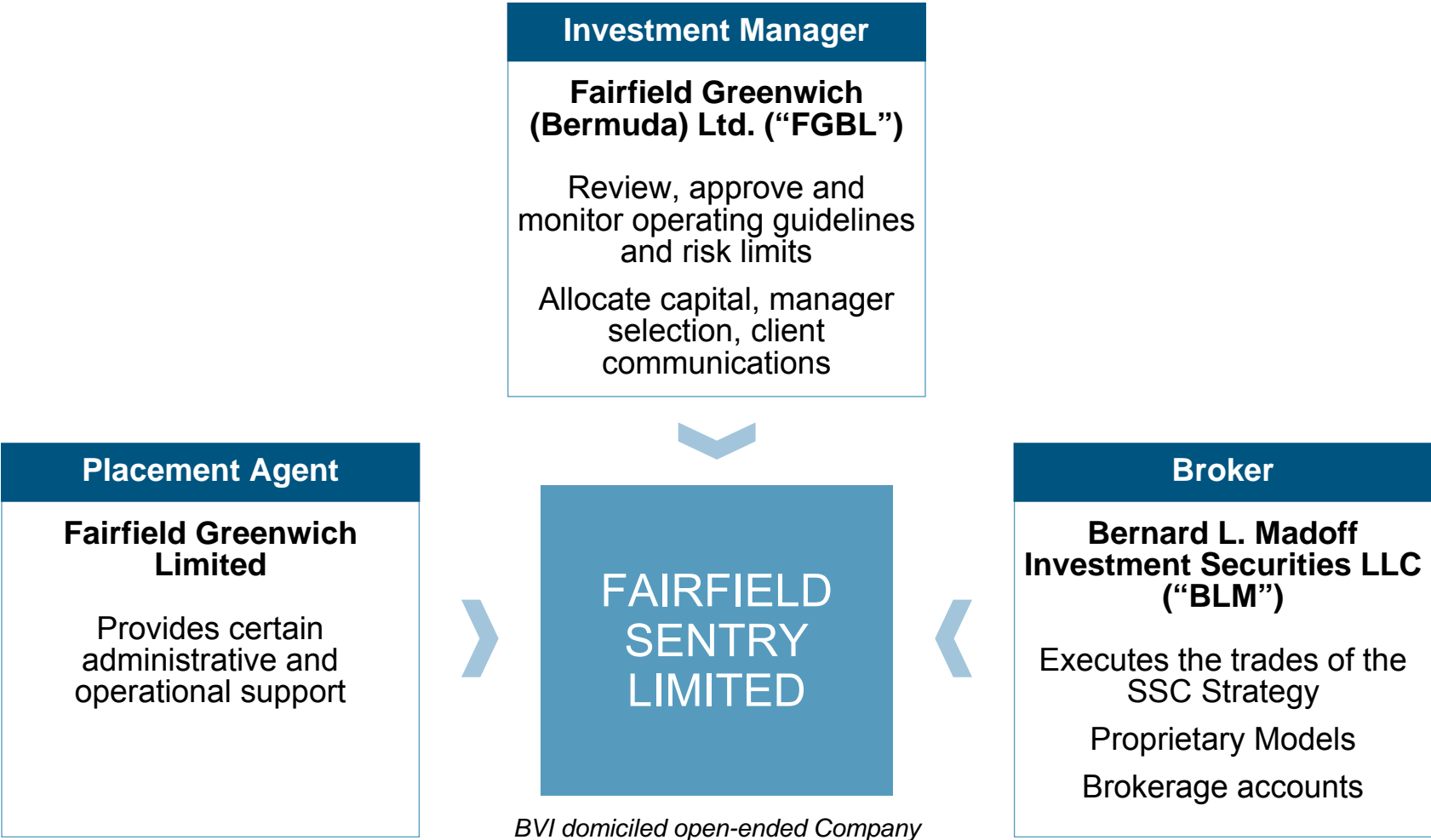
- Relative to other funds in the asset class

- **Fundamental Analysis**

- Strong research capabilities to support investment decisions

III. Fund Structure

Fund Structure & Key Investment Relationships



Value Added by FGG

- **Maintain full transparency to BLM accounts**
- **Independent verification of prices and account values**
- **P&L attribution analysis**
- **Examination of option greeks to make sure the hedge is working as expected**
- **Risk oversight using Risk Metrics (reports are made available to clients who have signed non-disclosure agreements)**
- **Systematic investment compliance monitoring of Operating Guidelines**
- **Regular written communication to clients**
 - Monthly reviews
 - Semi-Annual letter
 - Periodic Analyses

IV. Strategy Objectives & Description

Fairfield Sentry Limited

- **Fairfield Sentry Limited (“Sentry” or the “Fund”) has employed a split-strike conversion strategy (the “Strategy” or “SSC”) since inception in 1990.**
- **Sentry’s objective is to seek investment returns that:**
 - Provide long-term capital appreciation by delivering short-term gains
 - Are uncorrelated to market movements and trends
 - Are disproportionately high relative to market risk exposure
- **Current Fund size: Approximately \$7 billion as of September 2007**
- **Investor base is very well diversified both in terms of client type and domicile**
- **Largest single investor represents less than 4% of assets**

Strategy Description

The Strategy¹ is designed to identify and profit from short periods of positive momentum in large-cap U.S. equities on a hedged basis

Universe:	■ S&P 100 Index stocks and index options
Exposure:	■ Low delta-adjusted net long exposure
Leverage:	■ No balance sheet leverage
Beta vs. S&P 100 Index	■ Very low trailing 12 month beta (less of than 0.10)
Volatility:	■ The Strategy is designed to have a much lower volatility than the S&P 100 Index
Holding Period:	■ The holding period of each implementation cycle typically ranges from two weeks to three months

- BLM executes all stock transactions using their **sophisticated trade execution technology**
- A typical position consists of a **combination** of stock and equity index options
- Market risk is controlled via an **approximate notional put hedge**
- The Fund alternates between periods of investment in the Strategy and periods of non-investment awaiting the next implementation cycle

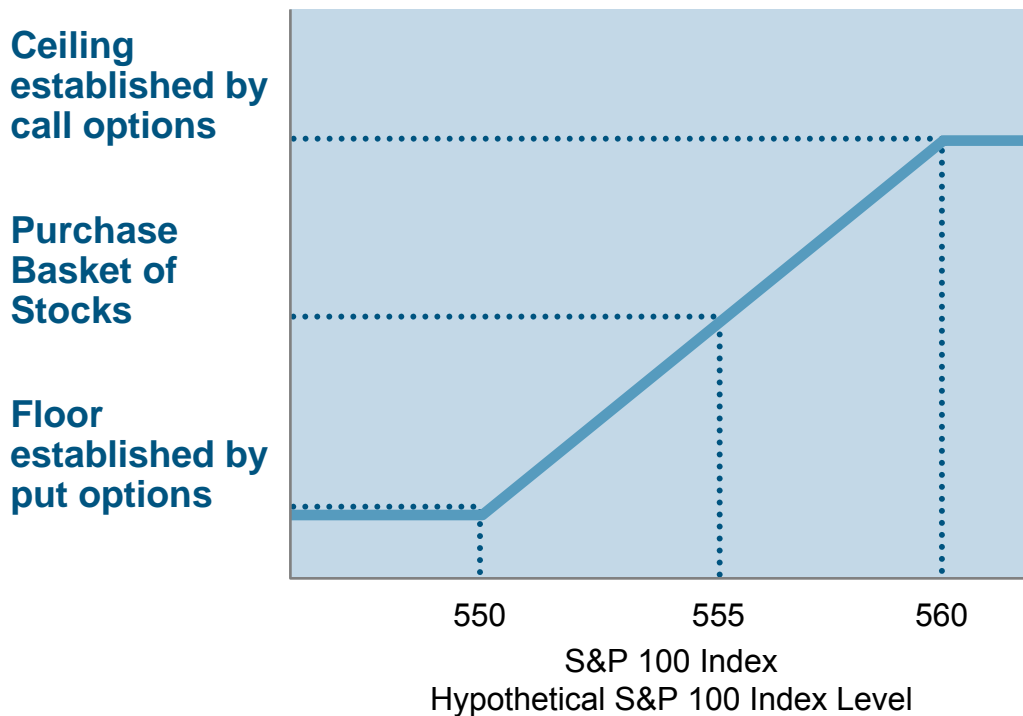
Note: For important information about the Strategy, please see footnotes in Appendix 2.

Instrument Types used to Construct a Position

INSTRUMENT TYPE	PURPOSE	DESCRIPTION
1. Stocks	<ul style="list-style-type: none"> ■ To replicate the S&P 100 Index 	<ul style="list-style-type: none"> ■ Between 40 to 50 stocks in the basket ■ Drawn from among S&P 100 Index members ■ Large market cap stocks with good liquidity
2. Long S&P 100 Index Put Options	<ul style="list-style-type: none"> ■ To control market risk at the strike price of the put options 	<ul style="list-style-type: none"> ■ Near out-of-the-money, next month expiration ■ Provides approximate notional put hedge at implementation
3. Short S&P 100 Index Call Options	<ul style="list-style-type: none"> ■ To finance some or all of the put hedge cost ■ Increase the stand-still rate of return 	<ul style="list-style-type: none"> ■ Similar profile to that of put options
4. U.S. Treasury Bills	<ul style="list-style-type: none"> ■ To protect capital while awaiting the next entry opportunity 	<ul style="list-style-type: none"> ■ Laddered portfolio of short-dated U.S. T-Bills guards against interest rate exposure

The “Bull-Spread” Position

This position in its entirety is known as a bull spread, which is intended to work as follows:



- It sets a floor value below which further declines in the value of the stock basket is offset by gains in the put options
- It sets a ceiling value beyond which further gains in the stock basket are offset by increasing liability of the short calls
- It provides a range market exposure in between – historically anywhere from 1-2% depending on how tightly the options collar is struck

Note: The use of options does not guarantee a profit or protection against portfolio loss.

Alpha Drivers

The Split Strike Conversion Strategy offers two key sources of alpha ...



Sentry's 95/5 Seeding Program

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 at the time of investment) to alternative investment opportunities other than its modified "split-strike conversion" investments.

V. Risk & Operational Controls

Risk Controls

■ Market Risk:

Market risk is controlled by tightly limiting how “out-of-the-money” the strike price of the equity index put options and by ensuring a very high correlation of the stock basket to the S&P 100 Index.

The accounts are subject to certain Operating Guidelines which, among other things, impose limitations on the minimum number of stocks in the basket, the minimum market capitalization of the equities in the basket, the minimum correlation of the basket against the S&P 100 Index, and the permissible range of option strike prices.

■ No Leverage:

The Fund does not employ any balance sheet leverage. The stocks are housed in segregated cash accounts at BLM and these accounts do not permit the use of leverage or short sales, or borrowing against assets in the accounts.

VI. Historical Performance

Historical Performance

Relative to the S&P 100² (inception to September 2007):

	Sentry	S&P 100 Index
Compounded Annual Return:	10.86%	11.42%
Standard Deviation:	2.49	14.09
Sharpe Ratio:	2.76	0.53
Worst Drawdown:	-0.64	-49.37

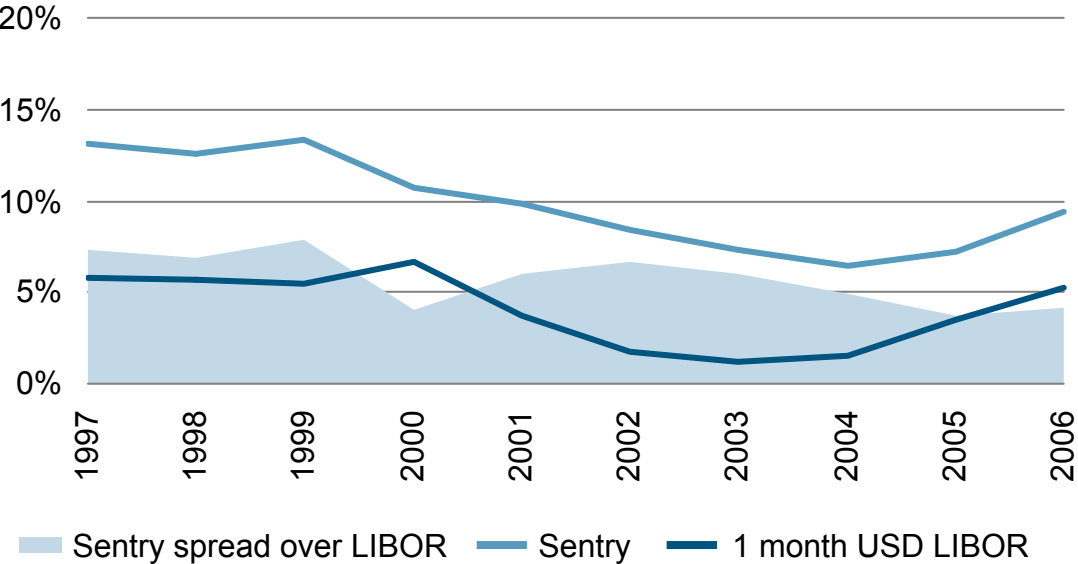
- Similar returns to the S&P 100 Index, with less than one-fifth the volatility
- Low correlation to the S&P 100 Index of 0.32 (since inception)
- Sharpe Ratio of 2.76 vs. a Sharpe Ratio of the S&P 100 Index of 0.53
- Max peak to trough drawdown of -0.64% vs. -49.37% for the S&P 100 Index over the same time frame

Historical Performance (Cont.)

Relative to USD 1 month LIBOR:

Relative Performance

Sentry vs. 1-month USD LIBOR



- Consistent performance relative to short-term cash rates of return
- The Fund has returned between 400 to 600 bps over 1-month USD LIBOR
- The Strategy seeks to protect capital during unfavorable markets by remaining invested in short-dated U.S. Treasuries

Historical Performance (Cont.)

Attractive Risk-Adjusted Returns:

Mild Positive Convexity

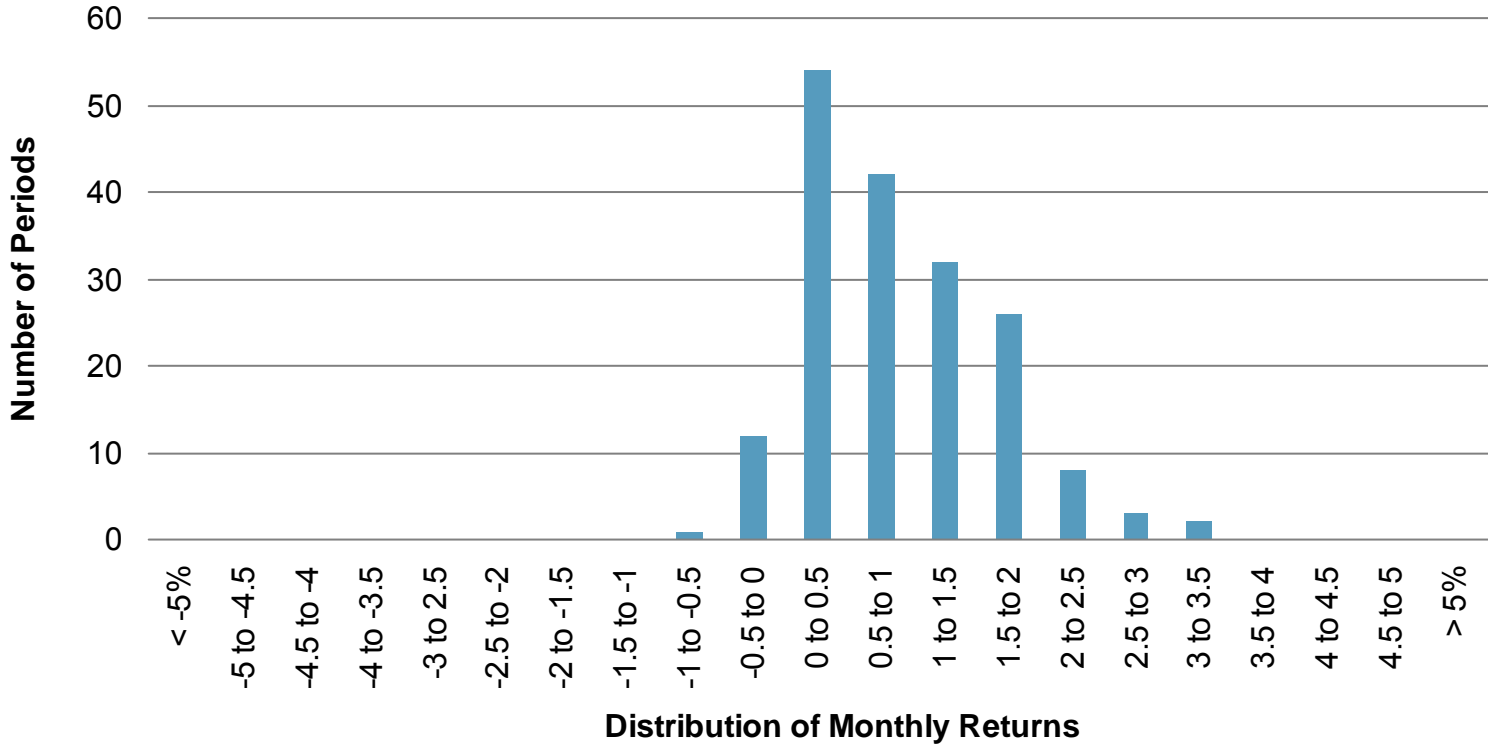
$$y = 0.1288x^2 + 0.0572x + 0.0081$$
$$R^2 = 0.1101$$



Historical Performance (Cont.)

Attractive Risk-Adjusted Returns:

Positively Skewed Return Distribution with No “Fat Tails”



Historical Performance (Cont.)

Limited Drawdowns:

Depth	Length	Recovery	Peak	Valley
-0.64%	1	2	Oct-94	Nov-94
-0.44%	1	1	Jan-94	Feb-94
-0.40%	3	1	Nov-02	Feb-03
-0.27%	1	1	Apr-92	May-92
-0.24%	1	1	Jul-95	Aug-95
-0.14%	1	1	Oct-93	Nov-03

- Fourteen down months in over 16 years (202 months)
- Largest peak to trough drawdown was -0.64% in November 1994 and the Fund took two months to recover
- S&P 100 Index largest drawdown was 49.37%
- 92.57% winning months
- Inception to September 2007 annual standard deviation of 2.49

VII. Appendices and Important Notice

Appendix 1: Terms & Conditions

The Fund:	Fairfield Sentry Limited
Structure:	Open-ended B.V.I. Company
Management Fee:	1%
Performance Fee:	20%
Currency:	USD (currency feeder classes in EUR and CHF)
Investment Manager:	Fairfield Greenwich (Bermuda) Limited
Subscriptions:	Monthly, notice due by third to last business day
Payment:	Last business day of month
Redemptions:	Monthly, on fifteen calendar days' notice
Subscription/Redemption Price:	N.A.V.
Minimum Redemption:	\$25,000
Minimum Investment:	\$100,000
Minimum Additional Investments:	\$50,000
Subscription Price:	N.A.V.
Listing/Published:	Irish Stock Exchange/International Herald Tribune
Administrator, Registrar & Transfer Agent:	Citco Fund Services (Europe) B.V.
Bank:	Citco Bank Nederlands, NV
Auditors:	PriceWaterhouseCoopers (Rotterdam)

Appendix 2: Footnotes

1. The Strategy is implemented by BLM, a broker-dealer registered with the Securities and Exchange Commission, through accounts maintained by the Fund at that firm. The accounts are subject to certain guidelines which define the parameters of the Split-Strike Conversion Strategy. Subject to the guidelines, BLM is authorized to determine the price and timing of stock and option transactions in the account. The services of BLM and its personnel are essential to the continued operation of the Fund, and its profitability, if any.
2. The S&P 100 Index performance information includes dividends reinvested. It represents a subset of the S&P 500, which consists of 500 stocks chosen for market size, liquidity and industry group representation. It is not possible to invest directly in an index. Fund performance information is net of fees and expenses and reflects the reinvestment of dividends, gains and other earnings. Past performance is not a guarantee of future results.

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