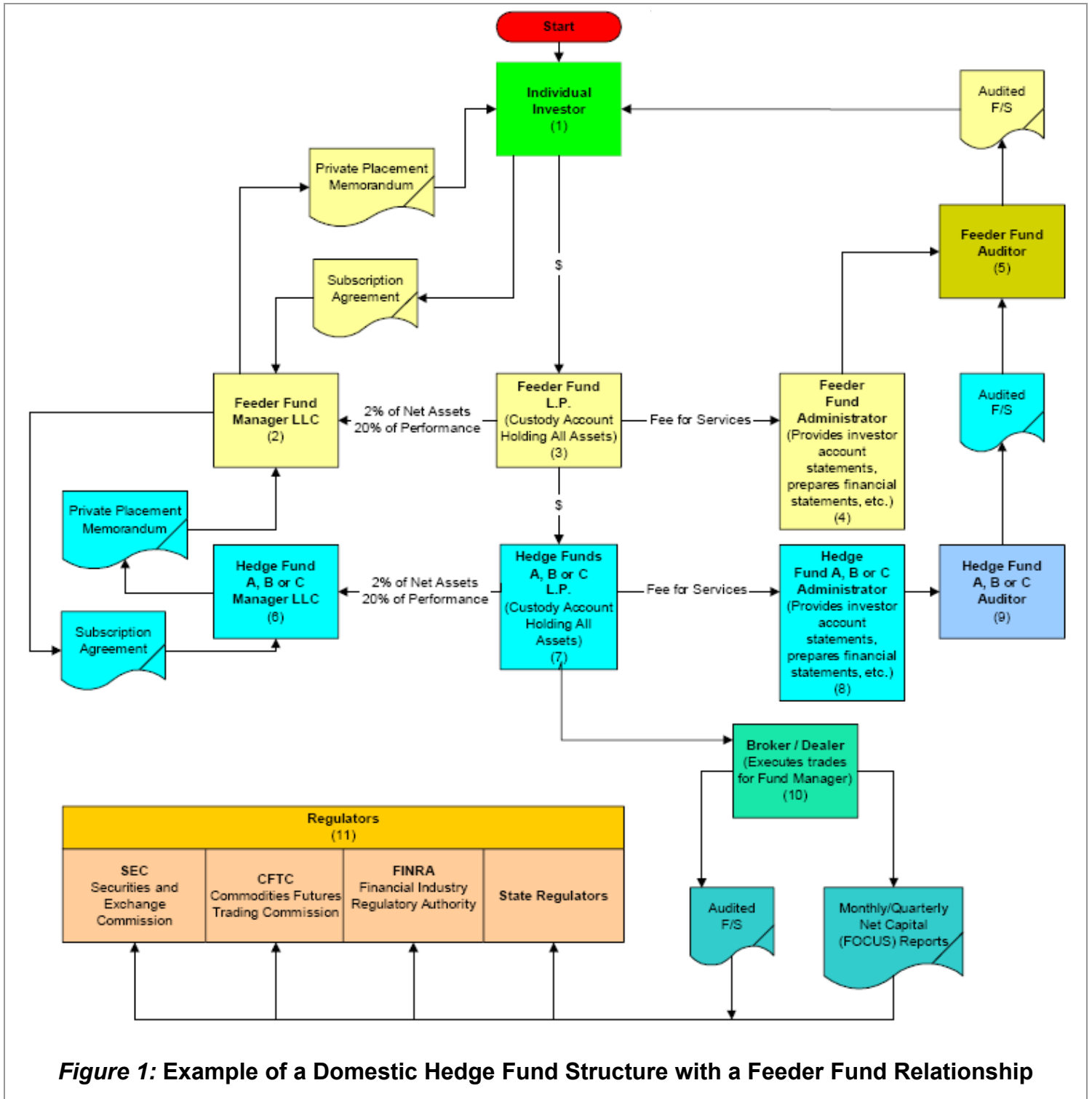


Preliminary Financial X-rays of the Alleged Madoff Scheme



The chart illustrated in Figure 1 is a representative structure reflecting the relationships among investors, feeder funds, hedge funds, their service providers and regulators. The chart is our way of beginning to CAT scan the opaque complexity inherent in the interaction among the parties involved.

You can see that the multiple layers an investor’s capital contribution will flow through to arrive at the ultimate investment. There also are several layers that investor account reporting and financial statements flow through before they get back to the investor.

We have kept the chart in Figure 1 as simple as possible by displaying only a single feeder fund investing in a hedge fund. The relationships often are far more complicated. It is not uncommon for a large number of feeder funds to invest in a single hedge fund or for a single feeder fund to invest in a large number of hedge funds.

It is important to note the role of regulators in these relationships. As you can see, it is only the broker dealer (10) that reports financial information to regulators. (11) We have not drawn a line between the regulators (11) and the hedge fund manager (6) or feeder fund manager (2). Depending upon the manager's actual business activities there can often be little or no regulation of these entities. Both the hedge fund (7) and feeder fund (3) themselves have no requirement to report to regulators. There are some of the red flags that require in depth due diligence before investors buy in.

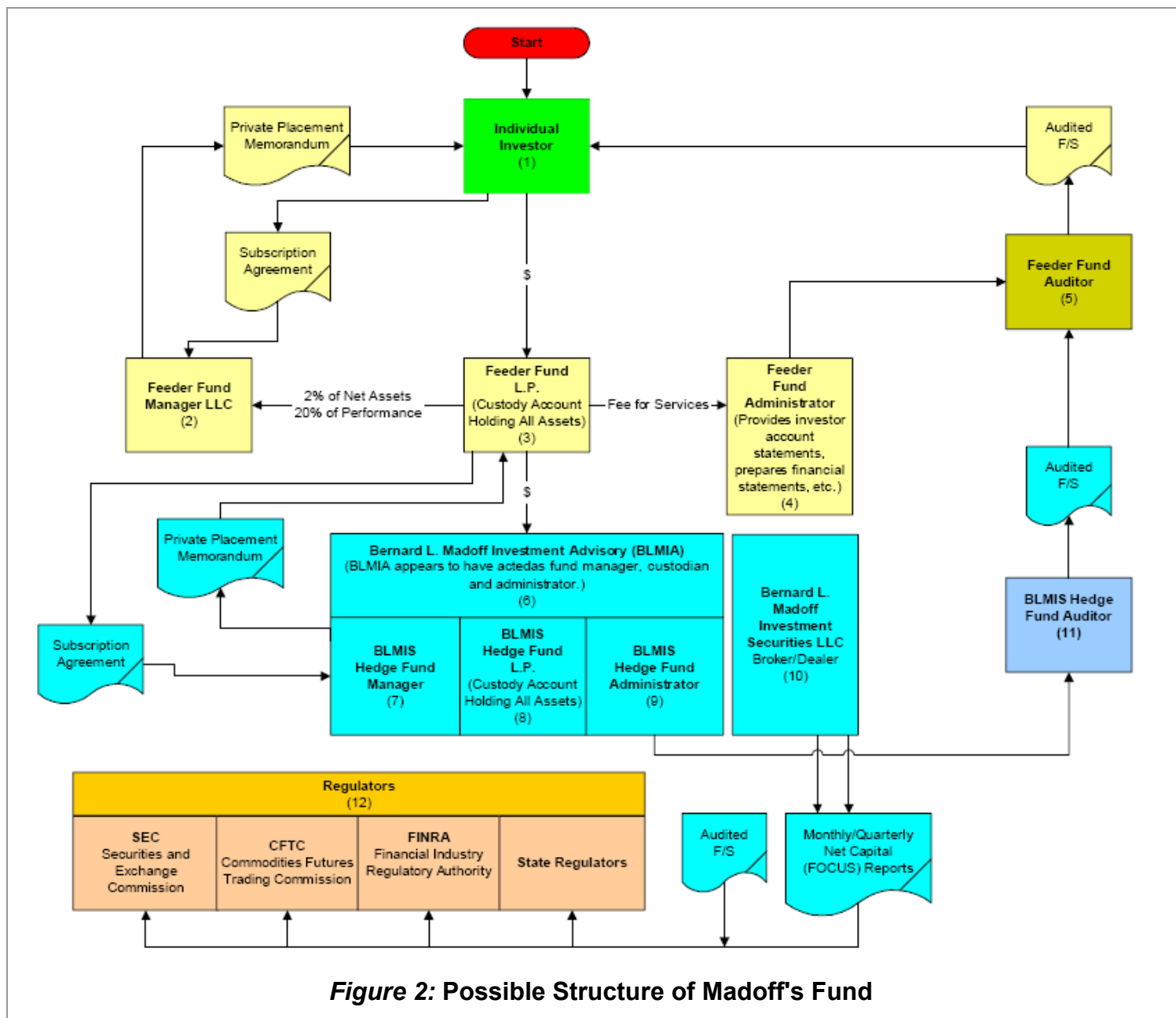


Figure 2: Possible Structure of Madoff's Fund

The second chart, illustrated in Figure 2, approximates what may have been the structure used by Bernard Madoff in managing investor funds. It is based on information gleaned from public sources and our own understanding of this type of entity. We will update it as we continue to research the issue and additional information is made public from the ongoing investigation.

When comparing the Madoff structure to the structure illustrated in Figure 1 you will see no difference in the first layer that goes from the individual investor (1) to the feeder fund (3). However, the next level is quite different. It appears that Bernard L. Madoff Investment Advisory ("BLMIA") acted as fund manager, custodian and administrator (6), while Bernard L. Madoff Investment Securities LLC ("BLMIS") acted as the broker/dealer. What actually happened inside the BLMIA black box is the main subject of investigation. The absence of a better segregation of duties suggests a significant risk for the investor.

A comprehensive, integrated due diligence program can help investors identify and understand these relationships as well as the risks they pose.

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