

Fairfield Sentry Limited
Fairfield Sigma Limited
Fairfield Lambda Limited
(All In Liquidation)

Second Interim Consolidated Report of the Liquidators

29 March 2010

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1 Introduction

1.1 This Report provides an update regarding the current position of three related companies, Fairfield Sentry Limited (“Sentry”) and two of its feeder funds, Fairfield Sigma Limited (“Sigma”) and Fairfield Lambda Limited (“Lambda”).

1.1.1 Basis of Appointment

1.1.2 On 23 April 2009, Mr. Christopher Stride, Managing Director of Krys & Associates (BVI) Limited was appointed Liquidator of Lambda pursuant to the provisions of the British Virgin Islands Insolvency Act 2003 (the “Act”).

1.1.3 On 21 July 2009, Messrs. Christopher Stride and Kenneth Krys, Managing Director of Krys & Associates Cayman Limited were jointly appointed Liquidators of Sentry and Sigma pursuant to the provisions of the Act. Save where otherwise appears, references in this report to the “Companies” are to Sentry, Sigma and Lambda collectively and references to the “Liquidators” are to both Mr. Stride and/or Mr. Krys in their sole or joint capacities as Liquidators of the Companies.

1.1.4 Each of the Companies was placed into liquidation in separate proceedings: Claim No. 2009/0074 in the case of Lambda, Claim No. 2009/0136 in the case of Sentry and Claim No.2009/0139 in the case of Sigma.

1.1.5 However, given the similarities between the Companies and their collective history, the Liquidators have determined that a single consolidated Report is appropriate. Where the contents of this Report relate to one specific entity, this is stated. No issue has so far arisen that requires the Liquidators to contemplate a separate strategy in relation to one company which is inconsistent with any interest of either of the other companies.

1.1.6 This report should be read in conjunction with the report dated 16 September 2009 (referred to as the “First Interim Report”).

1.2 Duty to Report

1.2.1 The Liquidators are not obligated, either under the provisions of the Act or the Insolvency Rules 2005 (the "Rules") or under any of the Orders pursuant to which they were appointed to provide a report on their acts and dealings and the conduct of the liquidation until the conclusion of the liquidations. Given the size and scope of the liquidations, however, the Liquidators wish to keep the Court, the creditors and the investors regularly apprised of the current status of the liquidations, and therefore expect to provide Reports biannually.

1.3 Restrictions and Qualifications of the Report

1.3.1 The purpose of this Report is to provide an update to the Court, creditors and investors on the work performed by the Liquidators since the First Interim Report.

1.3.2 In performing their work, the Liquidators have relied upon the integrity and accuracy of the information and documents supplied. Although the Liquidators have attempted to corroborate the information and documents they have obtained from different sources, they have not independently verified all of the information and documentation they have relied upon in preparing this Report. In addition, the Liquidators have not performed an audit or review in accordance with International Audit Standards and, consequently, no assurance is expressed in this regard.

1.3.3 The Liquidators report solely on the information available to them at the time of this Report and they will update the creditors and shareholders in future reports, as new or additional information comes to light. The Liquidators have no duty to update information at any particular time and no duty to correct any misstatements, inaccuracies or omissions upon discovery of the same or at any time.

1.4 Sources of Financial Data and Information

1.4.1 The Liquidators and their staff have not had access to all of the documents and information of the Companies and therefore have faced difficulties in conducting a proper investigation into the affairs of the Companies. To the extent the Liquidators have been able to conduct investigations and

reach conclusions, they have had to rely upon the information and documentation obtained from the following sources in the preparation of this Report:

- The Companies' Administrator, Custodian, and Depository, respectively Citco Fund Services Europe B.V., Citco Bank Nederland B.V. and Citco Global Custody N.V. (together referred to as "Citco");
- The Companies' former attorneys, Conyers Dill & Pearman (BVI), Mr. Andrew Goldstein (USA), Seward & Kissel LLP (USA), Stikeman Elliott LLP (Canada) and Loyens & Loeff N.V. (The Netherlands);
- Two of the Companies' directors, Messrs. Jan Naess and Peter Schmid (the "Independent Directors").
- The Companies' Registered Agent, Codan Trustees (B.V.I.) Limited;
- BVI Financial Services Commission, Registry of Corporate Affairs

1.4.2 At the date of this report, the Liquidators have had access to only limited documentation from Companies' former Investment Manager, Fairfield Greenwich (Bermuda) Limited and the Companies former auditors, PricewaterhouseCoopers ("PwC").

1.4.3 The Liquidators have also been guided by their independent lead Counsel, Mr. Stephen Moverley Smith QC of XXIV Old Buildings, London, together with their attorneys in the British Virgin Islands (Forbes Hare), USA (Brown Rudnick LLP) and the Netherlands (Brada Kuttner).

1.5 Scope of Work Performed

1.5.1 The powers of the Liquidators are in accordance with the provisions of Schedule 2 of the Act and these are set out in the Order dated 23 April 2009 (Lambda) and the Orders dated 21 July 2009 (Sentry and Sigma). The Act and the Rules are available to download from the British Virgin Islands Financial Services Commission website: www.bvifsc.vg.

1.6 Performance of Duties

1.6.1 In order to comply with their duties and obligations, the Liquidators have been assisted by personnel of Krys & Associates (BVI) Limited and Krys & Associates Cayman Limited, whose work has been performed under the direction of the Liquidators.

1.7 Currency

1.7.1 All references to \$ in this report refer to the US dollar unless otherwise specified.

2 Executive Summary

- 2.1 Since the First Interim Report the Liquidators have been continuing their investigations into the Companies' potential areas of recovery and addressing the litigation commenced by the US Trustee appointed over Bernard L. Madoff Investments Securities LLC ("BLMIS") pursuant to the Securities Investor Protection Act (the "SIPA Trustee").
- 2.2 Significant progress has been made in negotiating a potential settlement with the SIPA Trustee, and while final terms have not yet been agreed, the Liquidators are hopeful that a resolution will be reached within the next few months.
- 2.3 The Liquidators believe that, should acceptable terms of settlement be agreed, and subject to the approval of the Court to enter into the agreement, the settlement with the SIPA Trustee will have significant benefits for the investors and creditors of the Companies. The Liquidators consider that the resolution of the ongoing discussions with the SIPA Trustee will fundamentally influence the conduct of the Liquidation and the courses of action expected in the various litigation proceedings currently pending.
- 2.4 As part of their legal strategy, the Liquidators have continued to monitor and progress all of the current litigation in the US. The primary reason for this is that they do not want to prejudice the potential that certain actions may have in the event that a settlement is concluded with the SIPA Trustee. As the cost to date of doing this has been relatively small, there seems to be little downside in maintaining the status quo.
- 2.5 The Liquidators have entered an arrangement with Citco to receive the Companies' records, allowing the Liquidators to further their investigations into the affairs of the Companies and possible avenues of recovery.
- 2.6 The Liquidators are filing protective writs or taking other steps where appropriate to protect the Companies' avenues of recovery where there are concerns about applicable limitation periods.
- 2.7 Further, with regard to any specific legal steps the Liquidators have taken to date and their legal strategy generally; the Liquidators have sought and obtained the approval of the Court.

2.8 Lastly, because of the sensitivity of the legal strategy that the Liquidators wish to pursue, the Liquidators have in some instances been unable to disclose specific details. This is not out of any desire by the Liquidators to conceal information from investors and creditors, but rather to maximize the impact of any potential action, and ultimately the recoveries to the estate.

3 Analysis and Work Performed to Date

3.1 Since the First Interim Report, the Liquidators have been principally involved in the following activities:

- Discussing and negotiating a potential settlement with the SIPA Trustee;
- Researching and investigating potential avenues of recovery;
- Monitoring current litigation and taking whatever steps necessary to continue actions or protect Companies' positions;
- Collecting the books and records of the Companies;
- Collecting cash and assets (including cash frozen pursuant to foreign Court Orders);
- Conducting an analysis of investors' transactions;
- Answering queries of investors;
- In the case of Sentry, meeting and communicating with the ad hoc Liquidation Committee; and
- Preparing for and attending Court on a number of applications for directions.

3.2 Discussions and Negotiations with the SIPA Trustee

3.2.1 The Liquidators identified upon their appointment that one of the more important issues that they faced was the position of (and in particular the litigation involving) the SIPA Trustee. As background, on or about May 18, 2009, the SIPA Trustee filed an adversary proceeding in New York against Sentry and other entities asserting that Sentry was liable to the BLMIS estate for the cash amounts it received within the 90 day and 2 year periods before 15 December 2008 (the "Filing Date") (the "SIPA Trustee's Preference Claim") and pursuant to the New York Uniform Fraudulent Conveyance Act, for the cash amounts it received within the 6 years before the Filing

- Date (the "SIPA Trustee's Fraudulent Conveyance Claims"). The Trustee also asserted claims for turnover and accounting of the withdrawals, and for the disallowance of Sentry's SIPA Claim. According to the SIPA Trustee, between inception and the Filing Date, Sentry withdrew \$1.2 billion less than the amount that it invested in BLMIS (i.e. it was a "net loser"). Among other withdrawals, the SIPA Trustee contends that Sentry withdrew \$1.13 billion within 90 days before the Filing Date and an additional \$1.924 billion during the period more than 90 days but less than 6 years before the Filing Date.
- 3.2.2 The Companies have also asserted claims in the BLMIS bankruptcy pursuant to the Securities Investor Protection Act. Sentry has filed a claim for \$6,284,321,581, Sigma has filed a claim for \$773,635,188 and Lambda has filed a claim for \$36,000,000.
- 3.2.3 Sigma and Lambda received notification from the SIPA Trustee on December 8, 2009 that their claims have been denied in the BLMIS liquidation proceedings due to them being classified as indirect investors which, in the determination of the SIPA Trustee, does not qualify either Sigma or Lambda as a "Customer" under the SIPA statute. The Liquidators have made a timely objection to and challenged the SIPA Trustee's decision.
- 3.2.4 In order to assess whether entering into negotiations with the SIPA Trustee was economically beneficial for the estates and, if so, what terms or conditions should form the framework for the discussions, the Liquidators conducted a comprehensive legal and economic analysis based on several different scenarios. This analysis is based on legal advice received from US and BVI legal advisors, information received from the SIPA Trustee and information held in the possession of the Liquidators and included consideration of the merits of the SIPA Trustee's claims, the likelihood of enforcement of a judgment on those claims, and the impact those claims will have on the Companies.
- 3.2.5 Assuming the terms finally agreed are not materially different from what is being currently discussed with the SIPA Trustee, a scenario where the Liquidators conclude a settlement with the US Trustee compares favourably with alternative outcomes. In addition to the potential financial benefits in a settlement scenario, the Liquidators also believe that the settlement with the SIPA Trustee will either resolve or simplify a number of outstanding legal issues, namely: (i) the SIPA

Trustee's Preference and Fraudulent Conveyance Claims against the Companies will then be resolved and settled; (ii) that \$1.2 billion representing Sentry's customer claim in the SIPA proceeding (based on the SIPA Trustee's net cash loss calculation) will be allowed and admitted into the BLMIS estate by the SIPA Trustee; and (iii) with co-operation and support from the SIPA Trustee, the Liquidators will be in a better position to proceed with the certain litigation actions. In discussions with the SIPA Trustee's lawyers, it has been intimated that there might be a significant dividend in connection with the Sentry's SIPA claim (as allowed), although it remains unclear how significant it might turn out to be. The SIPA Trustee has indicated that, to the extent he and the Liquidators share common interests; he will be prepared to act in concert with them as may be necessary.

3.2.6 The specific terms of any agreement are still being negotiated and are accordingly subject to change prior to any conclusion. Once the specific terms of the settlement have been agreed, the Liquidators expect that they will convene a meeting of the Companies' investors and creditors to present and explain the advantages and disadvantages of entering into the agreement, before seeking the Court's formal approval. The detail of the agreement itself will not be fully disclosed for reasons of confidentiality. However, investors and creditors will be given an opportunity to make representations to the Court upon the matter if they consider it appropriate to do so, to which the Court will no doubt pay appropriate regard before making its decision.

3.3 Researching and Investigating Potential Avenues for Recoveries

3.4 Fairfield Sentry Limited (In Liquidation) v. Fairfield Greenwich Limited, et al., 09 CV 5650 (the "FGG Action")

3.4.1 The FGG Action was commenced by Sentry on May 29, 2009, prior to the appointment of the Liquidators, against the FGG entities (Fairfield Greenwich Group, Fairfield Greenwich (Bermuda) Limited, Fairfield Greenwich Advisers LLC, Fairfield Greenwich Limited and Fairfield International Managers, Inc) and various of their principals, seeking the return of performance and management fees paid by Sentry to the defendants amounting to approximately \$919 million.

3.4.2 The proceedings were aimed at seeking recovery of fees paid to the Investment Manager on the basis of a misstatement of Net Asset Values on which the fees were calculated. The Liquidators

were informed by prior counsel to the Companies that the proceedings were carefully worded in order to avoid asserting negligence or fraud on the part of the Investment Manager, as they were aware that these assertions could negatively impact their defence of the Claims brought by the SIPA Trustee and might also impair any claims brought in the US by the Liquidators against other parties because of *in pari delicto* and related principles of law.

3.4.3 The Liquidators have not spent significant time evaluating the merits of this claim, as the need for proceeding, discontinuing or amending the claim is (in the Liquidators' view) dependent on the outcome of the negotiations with the SIPA Trustee. In the interim, however, the Liquidators believe it is beneficial to maintain the claim, for the following reasons:

- a) By the complaint, the US statute of limitations is stopped against the FGG defendants. Any additional claims that the Liquidators may later seek to make against the defendants in the existing action should not be subject to a limitation issue as they will be deemed to have "related back" to the same facts and circumstances that were pleaded in the original complaint.
- b) The FGG Action and various derivative actions (including one purportedly made on behalf of Sentry in which the Liquidators have appeared for Sentry – see below) are presently pending in New York State court after remand back to state court from federal court in the Southern District of New York. By staying in state court with the derivative plaintiffs, the Liquidators will: (i) have standing to keep track of the other plaintiffs' strategies and efforts; (ii) exert influence on decision making and will remain as necessary participants in actions therein such as consolidated discovery against our potential litigation targets Citco, PwC and others; (iii) have standing to prevent unwanted actions or advances by the other plaintiff players and (iv) preserve their right, or such rights as they may have, to take control of the claims asserted by derivative plaintiffs purportedly on behalf of Sentry.
- c) Further, the Companies' continued status as plaintiffs against FGG has contingent value to the SIPA Trustee. The SIPA Trustee's claims against FGG appear difficult and subject to dismissal motions by the FGG defendants while the Companies' claims against FGG are believed to be the strongest of any possible plaintiff. The Liquidators are aware that

the SIPA Trustee is interested in pursuing the Companies' claims, or participating in these claims, for his own political and economic benefit. By continuing the FGG Action, the Liquidators thus strengthen their negotiating position with the SIPA Trustee.

- d) The FGG Action and the related derivative actions are moving very slowly, with little cost or need for affirmative action by the Liquidators. Now that these actions have been remanded to state court, a motion schedule has been set which goes into May 2010 for the defendants to move to stay the state court cases pending determination of dismissal motion practice in the investor consolidated class action pending in federal court in the Southern District of New York. Accordingly, the FGG Action is not taxing significant resources and will likely not do so for some time. The Liquidators' position with respect to the Sentry-related derivative action is discussed in more detail below.

3.5 Anwar et al. v. Fairfield Greenwich Limited, et al. 09 CV 0118 (S.D.N.Y.) ("Anwar")
Morning Mist Holdings Limited, et al. v. Fairfield Greenwich Group, et al. 09 CV 5012 (S.D.N.Y.)
("Morning Mist")

- 3.5.1 The Liquidators face two other significant pieces of litigation in the US, captioned above. In both proceedings, the causes of action and the defendants are largely similar, namely Fairfield Greenwich Group (and its individual and entity affiliates), Citco entities, and PricewaterhouseCoopers entities for various damages and other relief.
- 3.5.2 Anwar is an investor class action lawsuit consolidating a number of claims. Sentry had been named as a defendant in 3 of the 6 consolidated claims but is not named in the now governing second amended consolidated complaint, the pleading which supersedes all prior pleadings. A list of the consolidated claims can be found in the First Interim Consolidated Report of the Liquidators. There has been little action in Anwar to date with discovery stayed by the court while significant dismissal motions by all the principal defendants are briefed by the defendants, responded to by the plaintiffs and then determined by the US court. The Liquidators are keeping a watchful eye on the proceedings and expect that the court's determination of the dismissal motions will not be rendered until the second half of 2010 or later.

3.5.3 Morning Mist, a derivative action filed on behalf of Sentry for the benefit of certain investors in the Companies, is incongruous with the position of the Liquidators, who represent the interests of the Companies through their office holding in the BVI and have taken control of the direct Sentry case against the FGG defendants. The Liquidators have met with the legal representatives of the derivative action claimants, Milberg LLP, shortly after the Liquidators' appointment and have received confirmation from Milberg LLP that they will not take any action in the claim without prior notice to the Liquidators.

3.6 Litigation Involving the Anwar Investor Group

3.6.1 Consolidated under Anwar, Boies Schiller & Flexner LLP, representing a group of investors, filed pursuant to a court order, its consolidated second amended complaint against Fairfield Greenwich Group, Citco entities, and PwC entities on September 29, 2009. Sentry was not named as a co-defendant in the current pleading in the action. All of the principal defendant groups have moved to dismiss the complaint. The scheduling order set by the US court for the dismissal motions indicates that the court's decisions regarding the dismissal motions will not be rendered until the second half of 2010 or thereafter.

3.7 Other Affirmative Action

3.7.1 The Liquidators have been investigating what other rights of action may be available to them against the Companies' former service providers. These include using the Liquidators' powers to restore antecedent transactions in accordance with the provisions of the Act in the BVI. The Liquidators are also considering claims which may be brought in foreign jurisdictions both in North America and Europe and are mindful of the expiration of applicable statutes of limitation.

3.8 Monitoring Current Litigation

3.8.1 As indicated above, Sentry brought proceedings in the FGG Action against its former investment manager; derivative claims have been brought purportedly on behalf of Sentry in the Morning Mist matter; and the Anwar matter is a class action investor suit being brought against several of the Sentry service providers.

3.8.2 The Liquidators, under advisement of their US attorneys and with the prior sanction of the BVI Court, continue to monitor the current litigation matters. They have sought where possible to continue with the actions or where necessary have taken whatever steps are required to protect the Companies' position. The reasoning for this strategy is linked with the Liquidators' continuing negotiations with the SIPA Trustee.

3.9 Collecting the Books and Records of the Companies

3.9.1 Since the First Interim Report, the Liquidators have received additional records from the Companies' Independent Directors, Peter Schmid and Jan Naess. No information has been received from the remaining director, Walter Noel Jr. Information and records have also been collected from the Companies' Dutch attorneys, Loyens & Loeff

3.9.2 The Liquidators have received a considerable number of documents from Citco. However certain documents have not yet been delivered. The Liquidators have recently entered into an arrangement with Citco and expect that the flow of information will increase as a result.

3.9.3 The Companies' auditors, PwC did not respond to the Liquidators' initial requests to provide information, as a result of which the Liquidators are currently seeking documents pursuant to Section 282 of the Act to enforce their co-operation. At the time of this Report, there have been indications that PwC are taking the notices seriously, but the Liquidators cannot currently give any assurances in this regard.

3.9.4 FGG has not responded to the Liquidators' requests to deliver up the Companies' records. The Liquidators had entered into a Confidentiality Agreement with FGG which they were led to believe would result in the books and records requested being delivered up to them. To date, no records have been provided, and, as with PwC, the Liquidators have sought delivery of documents under Section 282 of the Act.

3.9.5 In order that the Liquidators and their legal advisors can have ready access to the Companies' books and records, the Liquidators have determined to use an electronic litigation database to store the records received. The Liquidators expect that they will take possession of a large volume

of additional records during the lifetime of the liquidations and the use of an electronic litigation database is crucial to ensure quick and accurate search tools.

3.10 Recovering Cash and Assets

3.10.1 Sentry held cash of approximately \$70 million in a Citco bank account. These funds were subject to freezing orders made by a foreign Court on behalf of two investors who had outstanding redemption requests prior to the commencement of the liquidations.

3.10.2 Following their appointment the Liquidators sought the advice of their legal team on the steps necessary to secure the release of the monies. Several strategies were considered and evaluated including challenging the freezing orders in the foreign Court and seeking recognition of the Liquidators' appointment in the foreign jurisdiction.

3.10.3 The Liquidators entered settlement discussions with the two investors. An understanding was reached in principle and the Courts consent was received whereby Sentry had agreed to make a contribution towards the legal fees of the two investors and in return it would secure the release of the attachments over the funds. In recent weeks it appears one of the investors has changed its position on this matter and the Liquidators will need to revisit the issue in conjunction with their legal team.

3.10.4 The assets of Sigma were represented by cash held by Citco of \$62,672,058 which were transferred to the Liquidators' escrow bank account. In addition the Liquidators recovered \$316,952 relating to legal retainers.

3.10.5 As mentioned in the First Report, Sentry also held non-BLMIS assets. The total value of these at the time of the Liquidators appointment was previously reported as \$79,462,106. The Liquidators have continued the Companies former decision to redeem these investments. To date the Liquidators have collected \$16,254,669 from investment redemptions and distributions from funds in liquidation. However in liquidating the remaining investments, this process has been hampered by the lack of information being provided by the former investment manager, FGG. The Liquidators are working with Citco to investigate the position regarding the investments. The Liquidators are attempting to reconcile both the remaining investments and the cash with the bank records and

information provided by the fund's investment managers. There are a number of significant discrepancies under investigation with Citco at this time.

3.10.6 In September 2009, the Liquidators entered into an Escrow Agreement with the US Trustee which facilitated the setting up of a bank account in England, through the Escrow Agent, Brown Rudnick. Funds totalling \$69,121,208 are held in this Escrow Account as at February 2010. This account represents the transfer of cash from Citco, primarily Sigma cash, and the proceeds of redemptions since the liquidation, less liquidation disbursements.

3.11 Conducting an Analysis of Investors' Transactions

3.11.1 The Liquidators have been conducting a comprehensive analysis of investors' transactions, reviewing the cash received and paid out to investors through the life of the Companies. The aim is to establish a basis for how the Liquidators will accept the admittance of claims from investors. It is expected that admittance of claims will be based either on the investors' shareholding or on a net cash basis. As the Liquidators have not received complete information from the Administrator, this process is yet to be finalised.

3.11.2 The Liquidators intend, upon completion of the analysis, to seek directions from the Court as to whether distributions should be based on net cash positions or shareholdings.

3.11.3 The Liquidators wrote to all Registered Shareholders on 20 October 2009 requesting that they submit details of their shareholdings to the Liquidators. An initial investigation of the data supplied by Citco identified discrepancies regarding some of the registered shareholders, and the Liquidators are therefore attempting to reconcile the information they hold against the information supplied by shareholders. Any shareholder who has not yet submitted the information requested is kindly asked to do so at the earliest opportunity.

3.12 Liquidation Committee

3.12.1 An ad hoc Liquidation Committee has only been constituted in regards to Sentry. As no creditors sought nomination to be members of a creditors' committee, the Liquidators sought nominations from the investors to form an ad hoc Liquidation Committee. Eight investors nominated

representatives to be appointed as members of the proposed committee. These nominees were asked to provide summary resumés which were published on the website and circulated to the investors in advance of the Meeting of Creditors / Investors on 6 August 2009 in New York. At that meeting, each nominee was allowed an opportunity to address those present, following which a poll was taken. After the meeting, the votes were quantified and the five nominees with the largest number of votes, in quantum of shares, were appointed to form a committee (“the Committee”).

The five committee members are shown in the table below:

Liquidation Committee Member	Represented by	Title / Firm
Natixis SA	Julie Engwirda (Chairperson)	Associate, Walkers
Bank Hapoalim (Suisse) SA	Ian Benjamin	Senior Associate Berwin Leighton Paisner LLP
EVG Bank Ltd	Sashi Bach Boruchow	Partner, Boies, Schiller & Flexner LLP
Nordea Life and Pensions	Leif Raanes	Head of Life Law, Nordea Group Legal
UBP Luxembourg (Various Entities)	Meade Malone	Managing Director Meade Malone & Company

3.12.2 As the Act does not contain any provision for the formation of a committee of investors, the Committee formed in regard to Sentry is necessarily ad hoc. The Liquidators have, however, endeavoured to set out the Committee’s rules and fashion its role in a similar manner to a creditors’ committee, accepting that there are certain inevitable differences because it has no statutory basis. Upon its formation in July 2009 the Liquidators provided the Committee with a set of guidelines to cover the Committee’s contribution, these guidelines were annexed to the First Interim Report.

3.12.3 Following direction from the Court, the Committee's role has been amended since the First Interim Report. The Court reviewed the guidelines issued to the Committee and made it clear that it was not willing to provide the Committee with such a mandate. The Court advised that as the Committee was ad hoc and had no statutory basis under BVI Law it may be used only for consultation purposes and all official authorisation and direction for the Liquidation process rests with the Court. The Liquidators continue to consult the Committee to ascertain its views on key issues within the liquidation and in recent weeks the Liquidators have been in discussion with the Committee to agree a formal protocol. The purpose of this protocol will be to clarify the matters to be shared with the Committee and in what respects their views will be sought. A draft document has recently been issued to the Committee Members for their consideration.

3.13 Preparing For and Attending to the Court

3.13.1 The Court takes a very active interest in the liquidations and has ordered that the Liquidators seek directions on any legal steps taken and any other significant matters. The Liquidators have appeared before the Court on the following dates for the following matters (most recent to oldest): -

Date	Name of Liquidation	Matter
15 February 2010	Sentry	Permission to enter into the Dutch settlement; approval of the Liquidators' current litigation strategy and an agreed protocol for ongoing legal steps.
	All	Fee approval.
27 January 2010	Sentry	Court direction sought on whether the Liquidators could disclose legal advice to the Liquidation Committee.
	Sentry	Approval of Applicants' costs.
6 January 2010	Lambda & Sigma	Sanction for Liquidators to file objection in the US Court to the SIPA Trustee's rejection of their customer claims.
16 December 2009	Sentry	FGG action: sanction for Liquidators to file a response to the objection to remand the matter to state court in US proceedings.
17 November 2009	All	Fee Approval.

13 November 2009	Sentry	Sanction for Liquidators to file a "placeholder" opposition regarding the SIPA Trustee's valuation of customer claims on a "net equity" basis.
4 November 2009	Sentry	FGG Action: sanction to file papers in US court regarding motion to remand matter to state court.
27 October 2009	Sentry	Leave to file and serve opposition papers to the derivative claimants' motion for disclosure and to strike material from the record in Re: Morning Mist. Leave to oppose any and all attempts by members of Sentry to bring putative derivative actions in the US.
12 October 2009	Sentry	Sanction for Liquidators to seek an extension of time in respect of filing opposition papers in the US matter of Morning Mist; Sanction for Liquidators to substitute Seward & Kissel LLP for Brown Rudnick LLP in the US matter of Morning Mist.
22 September 2009	Sentry	Sanction to defend proceedings in US re: SIPA Trustee's adversary proceedings and in the Zohar matter (now consolidated under Anwar); Sanction to file papers in US proceedings (re: Morning Mist); Sanction to file forum papers in FGG action.
16 September 2009	Sentry	First Directions Hearing and Sealing of Court file on Court's own motion.

3.13.2 Please note that certain applications to Court cannot be disclosed as the Court has sealed the file.

4 Financial Analysis

4.1 A comparative analysis of the Companies' financial position as at 21 July 2009² as compared to the estimated asset position as at 28 February 2010 follows. Please note that Lambda's sole asset was and remains its investment in Sentry, and therefore Lambda is not included in the summary.

Assets	Sentry		
	Position as at 21 July 2009	Position as at 28 February 2010	Variance
Cash	Nil	\$6,540,822	[a] \$6,540,822
Cash frozen by Court Attachments	\$70,099,114	\$74,816,308	[b] \$4,717,194
<u>Other assets</u>			
- non-BMIS investments	\$79,506,337	\$75,972,981	[c] (\$3,533,356)
- promissory note	Nil	Nil	Nil
- fee deferral assets	\$21,000,000	\$13,591,293	[d] (\$7,408,707)
Total	\$170,605,451	\$170,921,404	\$315,953

² With regard to the starting position, 21 July 2009; there was an error in the date as stated in the First Interim Report. In Paragraph 5.1.5 of the First Interim report the date should read 21 July 2009 being the date of liquidation rather than 31 December 2008.

Sigma			
Assets	Position as at 21 July 2009	Position as at 28 February 2010	Variance
Cash	Nil	\$62,636,906	[e] \$62,636,906
	Nil	EUR 185,903	EUR 185,903
Cash held in Citco	\$62,411,835	Nil	[f] (\$62,411,835)
	EUR 185,873	Nil	[g] EUR (185,873)
<u>Other assets</u>			
- non-BMIS investments	Nil	Nil	Nil
- promissory note	EUR 80,000	EUR 80,000	Nil
- fee deferral assets	Nil	Nil	Nil
Total	\$62,411,835	\$62,636,906	\$225,071
	EUR 265,873	EUR 265,903	EUR 30

4.2 The total estimated value of the assets of Sentry has increased by \$315,953 and the total estimated value of the assets of Sigma has increased by \$225,071. These variances can be explained as follows:

- a) Net amount held in the Escrow Account made up of \$11,500,000 transferred from the frozen account (being the balance over and above the amount secured by the freezing order). Originally the funds derived from redemption monies.

- b) Additional redemption monies received since the commencement of the liquidation.
- c) Investments of \$16,254,669 have been redeemed and received as cash. The value of the remaining stock has therefore increased.
- d) The original amount of \$21,000,000 was an estimate and following updated information received from Citco the current value of \$13,591,293 is a more accurate valuation. Additionally, some of the deferred fee assets have been redeemed and received as cash.
- e) This balance comprises of additional funds received from Conyers Dill & Pearman in respect of a net retainer held by them and transfers from Citco of \$62,672,058 to the Brown Rudnick Escrow Account referred to above.
- f) Account balance held by Citco was transferred to the Brown Rudnick Escrow Account.
- g) Account balance held by Citco was transferred to a Brown Rudnick Euro Escrow Account.

4.3 As reported previously, Sigma had cash at bank of approximately \$62.4 million and EUR 185,000 at the commencement of the liquidation. At that time, Citco, in its capacity as Custodian was unwilling to release those funds to the control of the Liquidators due to a purported proprietary claim made over them by the SIPA Trustee. Following negotiations with the SIPA Trustee, the funds have been transferred to an escrow account as previously indicated. In due course, either when the proposed settlement agreement with the SIPA Trustee is executed or before then, it is expected that these funds will be transferred into an account controlled solely by the Liquidators.

5 Conclusion

- 5.1 The Liquidators believe that, should a settlement with the SIPA Trustee be agreed, and subject to the approval of the Court to enter into the agreement, such settlement will have significant benefits for the investors and creditors of the Companies. The Liquidators consider that settlement with the SIPA Trustee will fundamentally influence the conduct of the Liquidation and the courses of action in the various proceedings currently pending. A number of avenues for recovery are available to the Liquidators which the Liquidators believe will increase the size of the estate.
- 5.2 The Liquidators intend periodically to provide further reports to the Court, creditors and investors, updating them on the progress of the liquidations as and when appropriate or as directed by the Court. As discussed in this Report, the Liquidators will be contacting the Companies' investors and creditors once the terms of any settlement with the US Trustee have been finalised and providing details of a meeting to discuss the proposed settlement.
- 5.3 The next interim consolidated report is scheduled to be issued in mid-September 2010. In the meantime, however, registered shareholders are advised to keep a regular check upon the secure website for further updates.



Kenneth Krys
Liquidator



Christopher Stride
Liquidator

29 March 2010

Appendix 1
Fairfield Funds Liquidation
Liquidators' cash receipts and disbursements statement
July 2009 to February 2010

	USD \$ SENTRY 28-Feb-10	USD \$ SIGMA 28-Feb-10	USD \$ LAMBDA 28-Feb-10	TOTAL 28-Feb-10
Cash Receipts				
Cash held by Citco	-	62,672,058		
Proceeds on liquidation of positions	16,254,669	316,952	-	16,571,621
Interest received	4,433	34,098	-	38,531
	<u>16,259,102</u>	<u>63,023,108</u>	<u>-</u>	<u>16,610,152</u>
Cash Disbursements				
Legal fees and expenses	2,896,642	18,504	7,003	2,922,148
Liquidators fees and expenses	1,841,146	55,746	18,117	1,915,010
Other professional fees	66,180	19,147	2,790	88,117
Database & Web Fees	16,930	2,830	327	20,086
Liquidation Committee expenses	4,843	-	-	4,843
Other travel expenses	7,007	-	-	7,007
Court Application Costs and fees	166,363	-	-	166,363
Other	1,100	1,100	-	2,200
Bank charges	768	289	126	1,183
	<u>5,000,978</u>	<u>97,616</u>	<u>28,362</u>	<u>5,126,957</u>
Net Cash Position:	<u>11,258,124</u>	<u>62,925,492</u>	<u>(28,362)</u>	<u>11,483,195</u>
Closing Balance made up of:				
Citco	74,816,308	-	-	74,816,308
VP Bank	-	316,852	-	316,852
Clydesdale	6,540,931	62,608,640	(28,362)	69,121,208
	<u>\$ 81,357,238</u>	<u>62,925,492</u>	<u>(28,362)</u>	<u>144,254,368</u>

Notes

1. Sentry has additional funds of \$70,099,115 which are subject to freezing orders
2. Funds held at Clydesdale are held in a Brown Rudnick escrow account and the SIPA Trustee's approval is required for the funds to be utilised.
3. Lambda's costs and disbursements have been settled in the absence of available funds by Sigma, these payments will be re-couped by Sigma at such time that sufficient realisations allow, or in the event that there are insufficient realisations will be discharged by the Liquidators.