FIDOC OFFSITE

- Appreciate all of you being here – many traveled a long way.
- Very important that we get together every year as FIDOC or regionally.

  So we make sure we are sharing same philosophical and strategic framework. (On same page.)

  Which will allow us to operate and make decisions independently but consistently!
- I'm going to talk about key themes and issues that will serve as backdrop for this offsite and our growth strategy.
- When I'm finished, I'll turn it over to Ken who will introduce the breakout sessions and go through

what we are all going to be doing over the next 2 days.

Before I get going, I want to thank Ken and his team (Andrea Reeves, Gary Mandleblatt, Wan Yen Wu, Cela Sinay, Cathy Muller, Jen Olis and Angelo Bello.) in advance for all the work they did. Also thank break out leaders, Eric Felder, Dev Joneja, Rich McKinney, and Kieran Higgins. Also events staff – Emilia Pereza and team.

And I also want to congratulate you on a super performance for the first 9 months. It is important to mark these moments – but not for too long! This offsite is about how to be bigger and better, so let's talk about growth.

Slide (1) Dick has set a high bar – 24 bl '09'.

(2) FID's share is 12.7 bl – consistent with our Rd. to 12 bl.

(3) Our growth objective of 11% is consistent with the expected fee pool growth over the next few years, so it is doable, but we will need to grow in multiple ways.

(4) Look at FID's rev's by segments. We need to plant seeds to develop new businesses like Energy, EM, INS, Prime Services, Infrastructure, because the places that drove growth aren't expected to grow as fast.

Look at mortgage business – investments we made in 90's - big payoff from unique platform and position. No one would have predicted the MTG business growth of couple hundred million in 2000 – couple billion now. Look at G.S. and M.S. – energy investments and prime brokerage investments paid off. Unique positions at top of industry. We have to grow – we need to make investments (R&D) to be on the leading edge of next big business opportunities.

We also need to create new products and services for our existing businesses. The world is changing at an accelerating pace so we have to continually re-invent ourselves! Bus. Mix will need to evolve but it is more than that. What were new products with spread become commodity like more quickly. But they often become cheaper raw material that allows new products to become viable. That's why analysts continually underestimate our earning – they see the commoditization and don't understand our ability to drive new products from that.

Growth of H.F.'s and increase in liquidity in system has made the marginal buyer relatively less important than the ability to source/originate product for our franchise. The H.F.'s (all clients) need to perform and are willing to pay for opportunities and ideas that allow them to do that. We need to change our focus and emphasis in order to really move the needle. We have obviously sourced/originated a lot of product but we can do a lot more.

I mentioned our clients need for ideas.

The information edge we have always had from our franchise is diminishing as prices become more transparent and internet is enabling smaller players to compete on a more even playing field. Some of our clients have as much or more info than we have. That wasn't the case 5 or 10 years ago. Alpha is increasingly being generated by knowledge/intellectual capital vs. info. So we need to increase our intellectual capital. Do that by investing in research. Not generic research but research that gives us an edge managing our own business as well as high value added products that our clients will pay us for.

And its not just research where we need intellectual capital, it is unique technology or knowledge in our businesses such as our inflation expertise or structured finance expertise … etc.

Another crucial part of our growth strategy is the creation of 'virtual businesses'. Pulling horizontal and vertical components together has always been difficult. It is a silo'd industry but the money is in the places that are not heavily traveled.

Need to be agnostic when inquiry comes in. Whoever gets it keeps it, unless they can't do it themselves. Not most efficient.

Take EM – I don't want to create a 'stand alone' EM business that has all functions separate from existing business. It is not only expensive but you can't get the same expertise in the business. EM rates, FX and credit should be part of rates bus, FX and credit bus to make sure best technology exists but you also need to look at business from a country/regional perspective to link flows, info, risk and products that way. No one wants to give up control and be dependant on others.

IB's thrived over the last few decades by taking advantage of the slowness and silos at banks and now HF and Private Equity basically are doing the same to us. If we don't figure it out, we will be a dinosaur ourselves. No firm has really figured it out yet but we are in the best position to do it.

The people who figure this out will get the bigger jobs in FID and the firm.

This isn't just happy talk.

This is where the $$ are.

(5) Hertz and Dunkin are just a couple of examples of **(6)** the $ in between the silo's. Tip of the iceberg.

Last broad theme I want to mention is using our capital more aggressively. I mentioned this issue a number of times and I'm not sure it's resonating. We are generating more capital each qtr and we aren't deploying it. In fact, this will be the 1st qtr bls requests were less than our allocation.

With Hertz and Dunkin, we changed the pricing structure with our technology – Maybe we can drive deals and use our capital rather than just be invited in.

(7) We have such a high return on risk capital that we are probably not on the efficient frontier across all businesses. An example is R.E., I sat down with Mark Walsh last month and went through the risk/reward on his bridge equity deals. We are a leader in the space and have developed a great business. In fact, we were turning away deals because of risk limits when this risk is the best in the division. We obviously have concentration and liquidity issues, but have gone through it at Exec. We have approval to be bigger in that space.

There are many other places where we either put our own limits or we have old limits that aren't appropriate any longer given the firm's growth. We have to challenge our historic levels of risk as well as our own comfort zone.

Trader Training - # who think they will get fired if they lose 1-5 mm.

I am not advocating risk for risks sake. We don't want to take stupid risk, and there will be times in the cycle when we need to have smaller risk but let's have that discussion together. We have built an incredible franchise and we have the opportunity to extract more value from it. We have to figure out in each business whether we are operating at that max level.

These were some of the key themes that I'm focusing on which are all about growth.

- **(8)** Invest in new businesses (plant seeds).
- Grow existing businesses with new products and services.
- Increase our capacity to source/originate principal opportunities.
- Develop our intellectual capital in a knowledge based world.
- Operate across silos in 'virtual businesses'.

  And,

- Deploy our capital more aggressively but thoughtfully to extract additional value from our franchise.

(9) All of this closely dovetails with the firm's strategic initiatives which were identified at the strategy offsite last spring and subsequently reviewed, approved and funded at the Exec Comm. offsite in Sun Valley last month. This is a tremendous opportunity for FID and we now need to execute on all of these initiatives as we always have done.

I think it is obvious now why we chose the breakout topics we did.

(10) A great flow business is very important to our overall franchise because that is what our clients care most about.

(11) A world class exotics business is crucial if we are to stay on the cutting edge of new product development and custom solutions for our client's problems. We are very inconsistent across businesses and regions.

(12) Breakout on principal sourcing strategy should help us figure out where to focus and what resources are required.

(13) Infrastructure – modeling, analytics and IT – how to use what we historically thought of as 'support and control' as an offensive weapon across all aspects of our business.

These are the breakout topics and I'm looking forward to hearing your collective views and recommended action steps for each of them.

The last thing I want to mention is compensation. Everything I've spoken about requires investment $ and we are doing that. There is no choice. So what are the implications on comp? The answer is we have to skew more than ever before.

We will be forced to make hard choices but we need to pay our best people the right numbers. We also need to pay our juniors that are moving up curve. That will put pressure on the middle, especially those who rose with the tide over the last few years and won't ever be our stars. If we don't skew, what will happen is we will lose our stars because they can easily move and we will be left with the belly. We will also lose revs because those stars will again believe they are 'capped' and will take less risk or work less hard after they have hit their targets and don't feel they have any upside.

This is the environment we will be living in so we need to manage the process throughout the year.

Here is the comp picture at the end of Q3:

9 mo we are 4% over last year

Q1	Q2	Q3
2.4	2.5	2.0

If we go back to 1h run rate – FID up 10% yoy or could be 3-4% So Q4 is very important!

By region:

Asia	8-10%
Europe	17-20%
U.S.	75-70%

Another way:

FID	+4.1% yoy
Asia	+38%
Europe	+20%
U.S.	-39%

Starting from High #. Good pool last year. Lot's of happy people. We will have enough money this year to make sure that those who s/b happy are happy!