From: Das, Nachiketa <ndas@lehman.com>
Sent: Friday, February 9, 2007 9:00 PM (GMT)
To: Simonte, Steven <steven.simonte@lehman.com>; Shotton, Paul <paul.shotton@lehman.com>
Subject: RE: Single Manager Fund Derivatives ROTR_v2 2.doc

Agreed. Equivalence with corporate businesses like STLF does not work for the reasons that Paul mentioned. I also do not believe that we can model a single fund's diffusion process from a fund of fund's process with reasonable confidence...

Having said that though, we do need to think about a framework.. I will think about this some more too..

> ____
> From: Simonte, Steven
> Sent: Friday, February 09, 2007 2:16 PM
> To: Shotton, Paul
> Cc: Das, Nachiketa
> Subject: RE: Single Manager Fund Derivatives ROTR_v2 2.doc
>
> Yes, indeed, you beat me to the punch but I agree 100% with both your
> points. Another difference I was thinking about is the fact that in
> hedge fund defaults don't typically exhibit much of a ratings
> migration path. Absent extreme fraud on a Worldcom scale, corporate
> credit quality deterioration happens over many months/years and is
> fairly observable. On the other hand, there is typically little
> warning before a hedge fund blows up, making it hard to buy into the
> notion that we should focus on a deterioration in market value over
> possible jump to default.
>
> ____
> From: Shotton, Paul
> Sent: Friday, February 09, 2007 1:57 PM
> To: Vezie, Eric; Feng, Ping; Das, Nachiketa
> Cc: Murphy, Kevin M; Simonte, Steven; Schreiber, Russell; Turner,
> Maria; Sharma, Amit; Crick, Andrew
> Subject: RE: Single Manager Fund Derivatives ROTR_v2 2.doc
>
> Thanks for your paper Eric.
>
> I think there are a couple of problems with your proposals. First, the
> Firm's Single Transaction Limit Framework was drawn up for a business
> with a fundamentally different underlying philosophy, namely, the
> intent is to syndicate the risk down to a level where we are
> comfortable to warehouse the remainder over the life of the
> commitment. The STLF is designed to protect us in the interim period
> before the risk is fully syndicated, but we would not undertake a

> commitment unless we truly believed that, given forseen market
> conditions, we could successfully syndicate. Unless the model for your
> business has changed, as far as I know there is no intention to
> syndicate the risk - we are wearing it for the life of the trade. That
> makes the STLF invalid as a means of controlling this activity.
>
> Second, I think we would be making a huge leap to try to infer single
> manager MPE risk from funds of funds MPE. The risks from a single
> manager are so idiosyncratic that I don't believe it is valid to try
> to infer them from a statistical distribution (at least until such
> time as we have a large portfolio of single manager deals.....)
>
> Eric, I believe you are leaving for vacation next week (as am I) -
> have a great holiday.
> ____
> From: Vezie, Eric
> Sent: Friday, February 09, 2007 11:28 AM
> To: Feng, Ping; Shotton, Paul; Das, Nachiketa
> Cc: Murphy, Kevin M; Simonte, Steven; Schreiber, Russell; Turner,
> Maria; Sharma, Amit; Crick, Andrew
> Subject: RE: Single Manager Fund Derivatives ROTR_v2 2.doc
>
> All:
> I took a stab at producing a one page 'strawman' which proposes a
> resolution to our discussion of a week ago. Andrew Crick has started
> work on the feasibility of the calculations described. In it I
> propose two limits: one, a 'drop to zero' limit, and two, an
> MPE-based limit drawing on the work and the infrastructure developed
> for fund of funds. The idea is that we create an MPE consistent with
> the fund of funds MPE, thus allowing the business to operate under a
> single overall MPE limit.
>
> << File: Rules of the road_risk measures.doc >>
>
> Regards,
> Eric
>
> ____
> From: Feng, Ping
> Sent: Wednesday, January 31, 2007 8:18 PM
> To: Shotton, Paul; Das, Nachiketa
> Cc: Murphy, Kevin M; Simonte, Steven; Schreiber, Russell; Vezie,
> Eric
> Subject: RE: Single Manager Fund Derivatives ROTR_v2 2.doc
>
> I forgot to mention that this incorporates Eric comments as well.
>
>
> ____
> From: Shotton, Paul
> Sent: Wednesday, January 31, 2007 2:53 PM
> To: Feng, Ping; Das, Nachiketa
> Cc: Murphy, Kevin M; Simonte, Steven; Schreiber, Russell
> Subject: RE: Single Manager Fund Derivatives ROTR_v2 2.doc
>
> OK, let us take a look at them and we'll set up a time.

>
> ____
> From: Feng, Ping
> Sent: Wednesday, January 31, 2007 2:19 PM
> To: Shotton, Paul; Das, Nachiketa
> Cc: Murphy, Kevin M; Simonte, Steven; Schreiber, Russell
> Subject: Single Manager Fund Derivatives ROTR_v2 2.doc
>
>
> Paul/Nachi, we'd like to sit down with you to go over our comments.
>
> << File: Single Manager Fund Derivatives ROTR_v2 2.doc >>