MORGAN MEDITERRE GROUP
Strategic Planning, Business Counsel

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MEMORANDUM

RETURNS ON INVESTMENT (ROI)

Background: I have been involved in investment banking since I was 11 years old, when I received my first job at J.P. Morgan, cleaning the bank's toilets for the Summer. My relations with the bank since that time have been a little less direct or "hands on" but have been more interesting. Through White & Case (www.whitecase.com) and my work as an analyst in David Rockefeller's office in the 1980's, I had the chance to work closely with all the major New York banks; with Deutsche Bank in Europe; with James Wolfensohn, head of the World Bank; and with Cyrus Vance, then Chairman of the Federal Reserve Bank of New York. Later, as Mr. Vance's special assistant in the Balkans (1989-92), in which he served as United Nations Envoy to the region, we used many methods to finance projects, including Federal-Reserve-backed private placement programs, of which he was one of the prime architects a decade earlier. And although we use a variety of methods today for project financing, and also facilitate the purchase of MTNs and other bank instruments from some of our banking partners, we largely focus on organizing private placement and managed buy-sell programs of MTNs on behalf of our clients and projects. Most of our clients come to us in order to finance specific projects. Others simply want to do standard capital enhancement – in which case, in order to gain approval from the U.S. or European regulatory authorities, we often allow them to adopt our own projects. Occasionally, a client can qualify for certain programs with no project at all. And, finally, at other times we have a project which needs and deserves financing but which has no investment capital of its own to block for a program, and so we pair it with a wealthy investor, who shares the profits with the project in question, usually obtaining approximately 100% annual return on investment for his share. This is what we are currently doing in _______.

Investing in general: Understandably, the subject of investment returns lies at the heart of any discussion of investment projects, programs or funds, and is one of the three main factors any investor must weigh before choosing an investment strategy. The other two factors are: a) the risk involved (here we are generally talking about risk to initial investment capital) and b) the time-frame for the recovery of the initial investment. These three factors form the standard parameters of any discussion of investment. For the straight purchase of fresh-cut or seasoned MTNs, these factors are different from those in a private placement investment, which is what concerns us here, so I will limit my discussion to the latter, and, in particular, to the subject of returns-on-investment (ROI).

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Private Placement Investments: In the early days of the private placement programs, access was strictly controlled by the U.S. Federal Reserve, and although it is still a highly regulated field (and even illegal as a transaction within the U.S. banking system, although we can use funds on deposit in U.S. banks in order to organize a PPI), there are a number of traders around the world who now perform either true PPIs or versions of the private placement transaction. As with most investment vehicles, however, there is a wide difference in performance and reliability, and we have, after a decade of organizing such projects, made a series of agreements with the top European banks; two standard Fed-backed private placement trading platforms; one smaller platform using LLB (Leichtenstein) and Bank Julius Baer as transaction banks; and our veteran (83-year-old) trader, H. R., the oldest and most powerful MTN trader in Europe. While we had originally used only one trading platform and two transaction banks based in Switzerland, in order to accommodate a wider range of clients (especially in Italy, where the relations between the Italian tax authorities and Switzerland are not very good), we gradually expanded our associations to include the above platforms, banks and special trader (H. R.). This has given us the ability to accommodate clients with between 100 million and 5 Billion euro in investment capital. In some cases, depending on the profile of the client, the nature of the assets and depository bank, or the projects to be financed, we can use two or more platforms or a combination of short-term, spot or long-term programs. In some cases, again according to the nature of the client and amount of capital, we sometimes participate in special Fed-backed private placements, or receive special permission from the Fed to extend the life of a trading program beyond the usual limits.

#1 Priority: In all cases, however, our primary focus is the complete security of the client's investment capital. The banks and platforms we have chosen to work with are one part of the security picture. The quality of the client and his assets is another part. Finally, the contracts we have with our network of institutional exit-buyers complete this security triangle. Every aspect of our protocol and procedures is focused on the absolute security of the client's investment capital, which remains in his own bank account under his exclusive ownership and control throughout the investment contract period.

Exit-Buyers & Arbitrage: One of the keys to the security of a true "secure" private placement program is having the exit contract in place from the beginning. We have a broad network of institutional and governmental exit buyers, who receive from our banks (through us) specially discounted packages of Medium Term Notes (MTNs), which they hold as secure investments and whose steady income allows them to meet their monthly obligations and generate a good profit. When setting up a private placement program on behalf of a client, we match the size of the investor's capital fund with various exit contracts, and then negotiate with our banks or Federal Reserve for packages of "AA" debt instruments to sell to these exit buyers. The bank officer and Program Manager in charge of each private placement are instructed to execute each such trade *only* when the exit-contract and corresponding funds are safely blocked at the bank. The trade then occurs as arbitrage (simultaneous buy-sell transaction), with profits, after banking and platform fees are deducted, going directly to the client's established profit account – for further distribution according to the Memorandum of Understanding we sign with the client. With the exit contracts in place at the platform's transaction bank, and with the exit buyer's funds blocked (in escrow) for that purpose, there is no exposure or risk, either to the line of credit we have established at the transaction bank to guarantee the trades, or to the investor's capital, which lies safely blocked at his own bank, protected by these two layers of security (our line of credit and the exit-buyer's blocked funds).

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Due-Diligence: The question of security, and the choice of which platform and investment programs to enter or organize all depend on the client and on the original due-diligence process. If there is a problem with the client or with the assets, such a problem could sabotage the investment program, leading the authorities to block the program after only a few weeks – or to deny approval from the beginning. That is why, before any serious discussion of a private placement investment program can begin, we require a current bank statement and full compliance package from the client. And if the client does have some kind of problem, like a doctor, we need to have complete and open disclosure about the problem from the very first contact. If we know about these problems, in many cases we can find a solution, and if a client's project is particularly deserving, we will exhaust every effort to find a solution. But we need to know, and this means that the client must provide full due-diligence documentation at the very beginning in order to have a meaningful dialogue, and especially before we can enter into a discussion about what returns on investment he can expect. And we do not accept applications from any client with whom one of our associates has not had a thorough discussion of all relevant issues – in person. Our associates must know their client well before introducing them to us.

Selection of Platform/Program: While there are many rogue or renegade traders around, promising extravagant returns, we have chosen a slightly conservative approach to the organization of private placements – following a very strict protocol. Our banks and platforms are reliable, strong and discrete. Our exit buyers are likewise reliable and very large (mostly international insurance companies and national pension funds), and our clients need to be solid and serious, with clean, clear liquid assets at an acceptable bank – or with confirmation by one of Europe's top 5 banks. Finally, part of our due-diligence process involves the regulatory authorities from the very beginning, so that there are no unpleasant surprises or blocked programs later on. Once our initial or preliminary due-diligence process is complete, we have a clear picture of the client: his needs, nature of project and the status of his assets. Based on these characteristics, we can make an initial match with one of our platforms, or with two platforms at the most – at which point we share the client's compliance documents with the designated Program Manager and Platform Director for the final phase of due diligence, which may require further documents to be provided by the investor. When this final due-diligence has been performed, and the client has been approved for participation by the bank, platform and regulatory authorities, then the door is wide open for us to review what programs are currently open for participation, what special rates or instruments we can negotiate with our banks (based on the recent approval), or what kind of program we should create ourselves.. But I need to emphasize that we cannot know any of this, for certain, until **after** the client has obtained this final approval, and we are not able to (or legally permitted to) communicate such information to the client until that time. Prior to this, any talk of ROI is unofficial and speculative, and may not even be accurate. We would rather wait, therefore, until *after* the client has been approved for participation, and we have all the facts and options before us, in order to present to the client an official proposal to study. Then, based on the facts and the exact ROI that comes with a specific program, the client is in a position to make an informed decision. At this point, the client will meet directly with the Program Manager and Platform Director and can address to them all technical questions before signing the investment contract. Neither the compliance package of due-diligence documents, nor the client's Memorandum of Understanding with us binds him to any investment commitment – until he actually signs the investment contract and the trading program begins. Naturally, there are no up-front fees or expenses, and none of the original investment capital is touched.

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Returns on Investment (ROI): Now we come to the heart of the matter. The ROI depends, first of all, on the investor's profile, project (if any) and assets. Based on these factors, we determine which platform(s) is/are most appropriate for the investor and then see which programs are currently available, what deals we can negotiate with the bank(s), or what kind of customized program we can create based on the above and on our exit buyers. Throughout this process, we are focused on obtaining the very best ROI for the investor. Because of the above relations, we can guarantee two things: 1) absolute security for the investor's capital and 2) the best possible (secure) ROI. We favour one- and two- year programs because of their security and stability. We often participate in special Federal Reserve-backed programs – for the same reason. We never buy and hold instruments. Never. Sometimes, after a client has obtained 80-100% ROI, we ask them to consider setting aside a certain amount for participation in spot programs, which can often yield significantly higher returns for short periods, but which require speed and flexibility to take advantage of. We never recommend this until after a client has already received full satisfaction from his original program profits and we have developed a solid working relationship with the client, their bankers and advisors.

Unofficially: 2008 through the beginning of 2010 marked the low-point in the private placement market because the demand for investment-grade instruments shrank considerably during that time. The demand has increased dramatically this year, however, and so we are able to trade at much higher levels than over the past two years, and this trend seems likely to continue for another couple of years. During the past two years, we have been able to generate, steadily and reliably, a minimum of 40% net returns from all of our platforms and programs – for clients with between 100 and 300 million euro cash funds on deposit. We share these profits 50%-50% with the client and pay our facilitators, intermediaries, analysts, program managers, bankers, etc. from our share of the profits. This means that the client's final net profits from a private placement program (at this level) organized by us will yield him a minimum of 20% (unofficially) per month for a 10-month trading year – or: 200% per annum. If this seems low, according to the feverish rumors on the street, then they are free to try their luck elsewhere. Also unofficially, if a client with 800 million – 2 billion euro in cash assets on deposit in an acceptable bank passes our due-diligence process, another level of returns can be achieved. In this case, we work with H. R. to arrange a special managed buy-sell program of special-issue MTNs with a group of our institutional exit buyers. In case of larger sums, we employ two platforms or launch several smaller programs in parallel, trading at a level that is comfortable for both banks and market, until we reach a potential trading level of 5 billion euro. The optimal private placement level, however, is around 500 million to 1 billion euro, for which we have many contracts in reserve. By trading aggressively on two or more parallel platforms, often twice per day, at this level we can usually obtain regular, steady ROI of about 80-100% per month (unofficially). At the same time, by setting aside a special reserve fund for spot programs, we can often improve on that figure quite substantially (unofficially). <u>But we cannot and will not talk ROI with a client until *after* they have passed the due-diligence process.</u> Then they are free to accept or reject our official proposal as they please.

Respectfully yours,

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