Dear Ralph,

Part I

In January of 2003 I excitedly accepted your offer to become your partner. While you may have had a fully fleshed out idea of where you thought we were going back then, I did not. I knew only that I trusted and respected you and that I had come to love to work with you over (a feeling shared by just about everyone) — so I considered myself tremendously fortunate to have been given the opportunity you gave me.

Over the past four years a lot has changed — and a lot has not. We have been very successful measured in almost any conceivable way. We have raised a lot of money, we've made a lot of money, we've hired a lot of good people — but, for me, most importantly — we have spent our time well — and time is the ONLY thing in this life which one can't ever get back.

I’m not sure how you are feeling right now — deep down. I guess I’m not 100% sure how I’m feeling — deep down — either, but I think I’m feeling pretty damn good. I think that I’m feeling this way because I have absolutely no doubt that I’ve done the best possible job that I could have done. Mistakes, yes, I’ve made them — but they do not bother me as much as they did years ago. I have come to see that whatever my “intelligence” or “abilities” are — they are not substantially worse than ANY of the people we speak to, talk to or read. So — fuck it — all one can do is their best — and I have done this.

From my point of view — I would say the same for you. Every so often I worry a bit that because you have been so spectacularly successful so far (in almost every way) you might be taking this opportunity to second guess yourself. Well, just in case you are — don’t. At the end of the day I think we will both be able to look at all that has happened and all that we have done and learn from what has gone well as well as from what that hasn’t. What a shame it would be for us not to take all we have learned and apply it going forward.

Perhaps I should save this next comment for the “self help” book I now plan to write — but I really don’t feel that what we’re going through right now is all that much different IN KIND from everything else we’ve experienced over the last four (or fourteen) years. We’ve lived a full and exciting life in the midst of an increasing NAV and I see no reason why the fullness and positive excitement we experience should be any different if the trajectory of the NAV changes. It only the NAV. On EVERY level I do not think a mature person — or a person who is at peace with themselves would allow NAV to be the determining factor for ANYTHING except their W-2 calculation (and Turbo Tax seems to do that effortlessly).

I became your partner in 2003. From where I sit I remain as excited a partner now as I was back then. On Thursday night, when we were out with Goldman I heard you say that you really had no interest in retiring. Well, neither do I — and I am as “fully in” as your partner now as I’ve always hoped I would ever be.

Ok — put the Kleenex away. Part Two is far less sentimental.

Part II

I think we have some important decisions to make. Some of these “decisions” will be guesses and some will

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follow directly from these guesses. Others will be prudent and responsible decisions given the probability factor of some of our guesses.

Time factors constrain and influence many of our decisions and guesses.

Many of our decisions will be inter-related so I am not sure, as I now write this, of the proper order of these decisions. I'll just let loose here and we can then sort out the order later today (and tomorrow and the next day and the day after that).

Question #1: What should we do now? (And by "now" I mean NOW).

As I've said to you over the last few months — I think we have two basic options: Close the two HG funds now — or get very very aggressive. (I will focus, for the moment, primarily on the HG Funds — but Rampart is obviously very closely related. The DPC is related — but less related — and SRP is related but least related.)

There are now a few reasons to close the Funds now.

The sub-prime market looks pretty damn ugly. CPR/CDR tells us we are looking at major write-downs across the board. If we believe the runs Steve has been doing are ANYWHERE CLOSE to accurate I think we should close the Funds now. The reason for this is that if CPR/CDR is correct then the entire sub-prime market is toast. It is toast in the way the HY CDO market is toast. If AAA bonds are systematically downgraded then there is simply no way for us to make money — ever. (While it may well be possible to succeed with a "distressed" fund — I do not think we can do this with HG. We are just too long. (A distressed fund may be in our future — but not HG's future — and it is way too early for a distressed fund — the distress hasn't even begun).

I think we need to GUESS about the accuracy of the CPR/CDR models NOW. It would be nice if we had the luxury of waiting a bit (and maybe we do — this is another discussion point) — but I do not think we have any time luxuries here.

So — how will we guess? I'm not sure I know the answer. Here are the possibilities I see. You and Ray will have to add any other possibilities.

Guessing on the likelihood of a melt-down.

1. We should believe CPR/CDR is we believe the model.
2. We should believe the model if we think the inputs are reasonable.
3. The inputs are reasonable if there is a good probability that the historical information the model uses is useful.
4. The historical information is useful if today's world is similar enough to prior "worlds"
5. Today's world IS similar to prior worlds UNLESS there is a very good reason to think that it's not.
6. What are the reasons the world may be different now? (and we must acknowledge that the world is rarely different from the way it's been — sometimes yes — but this is the outlier situation?)

Why is the world different?

a. All of these answers are taken largely from what Gyan has said (Gyan is a sell side analyst — and sell side analysts almost always give you good reasons for doing what is in their bank's best interest NOT your best interest. AND we have more and more reasons today for remembering that the banks will ALWAYS do what is in their best interest over us — every fucking time (this is perhaps a very useful lesson for us)). I was persuaded by Gyan when I last heard him — but I am now much less willing to accept the "objectivity" of his assumptions. I now believe that Gyan, in his role as CDO research person is simply one of Scott Eichels team. And I have no doubt at all about what Scott would say — and I have no doubt that Scott is in it only for himself (although I do like him).

The key reason the world may be different this time is that HPA will not be the predictor it once was.

I used to give this a reasonable probability of being correct — but I'm now not so sure. Caution would lead us to believe the HPA. So — caution would lead us to conclude the model is right — and we're in bad bad shape.

ANDREW LIPTON

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I sat him down on Friday and asked how serious he thought the situation was. He calmly told me that the situation wasn’t going to be as bad as people are saying.

Why should we believe Andrew? He’s been a RMBS analyst for 20 years. That’s good.

We should EXTRACT every piece of information from him because I’m not sure there is anyone who knows more than he does.

But I do not have a high degree of confidence in him. He’s been just too calm during this whole period. How could he have not been sitting on the edge of his chair with each release of Steve’s stuff? When I asked him about it he had not carefully analyzed it. How is this possible? What is he thinking? So – from circumstantial evidence I am not made comfortable by Andrew.

Ray Mcgarrigal.

Ray has lost confidence in the structures. Not long ago Ray had confidence in the structures. Ray does not fuck around. Ray has been paying attention. I trust Ray.

I am going to sign off for now. I’m going to Tsi’s game – where I will be able to continue.

Next topics will be:

1. Even if we go totally aggressive – what are the probabilities of success?
2. How long till we see success?
3. How many investors will NOT give us the time?
4. Is this number of “impatient” investors sufficiently large to force our hand anyway?
5. Who do we talk to about this?
   - Rich Marin
   - Warren
   - Outside counsel? (And here we have to be careful because our outside counsel is BSAM’s counsel NOT our counsel – This is another very big issue we at least need to think about.
6. When do we say something?
7. Does this affect the Rampart filing?

Ok – this seems like enough to think about for one morning!!!!!!!

I’ll be on the cell.

Let’s plan on getting together this evening. I could take a car out to see you – or you could come to the city. We can decide. I’d say we should go to the Racquet Club and have this discussion in the sauna – but I think you’ve taken an oath against discussing business there. Any other suggestions?

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phyllis cioffi <pacificafi@hotmail.com>
To: matt.tannin@gmail.com

when you return from the Met’s game give me a call I can drive into the city and we can meet either at the office or uptown near your apartment.

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SEC_ENF_FCIC_019337
here u go

----- Forwarded message -----
From: Matt <matt.tannin@gmail.com>
Date: Sun, 22 Apr 2007 08:19:10 -0400
Subject: Things to Think about - Parts I and II
To: pacq99@hotmail.com, matt.tannin@gmail.com

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