

**IN THE MATTERS OF
FAIRFIELD SENTRY LIMITED
FAIRFIELD SIGMA LIMITED
FAIRFIELD LAMBDA LIMITED
(ALL IN LIQUIDATIO)
(Collectively “the Funds”)**

Claim Numbers: 0136, 0139 and 0074 of 2009

Fourteenth Interim Report of the Liquidators to the Creditors and Registered Shareholders

31 August 2018

	<u>Table of Contents</u>	<u>Page number</u>
1.	Glossary of Terms	3-4
2.	Introduction	5-6
3.	Executive Summary	6-7
4.	Analysis of work performed to date	7-10
5.	Financial Analysis	11
6.	Conclusion	11
Appendix A	Receipts and Payments Account for the period 21 July 2009 to 31 July 2018	

1. GLOSSARY OF TERMS

Act	the Virgin Islands Insolvency Act, 2003 (as amended)
Bankruptcy Court	United States Bankruptcy Court for the Southern District of New York
BLMIS	Bernard L. Madoff Investment Securities LLC
BVI	British Virgin Islands
Citco	collectively the Funds' former Administrator, Custodian and Depository, respectively Citco Fund Services Europe B.V., Citco Global Custody and Citco Bank Nederland (B.V.) (Dublin Branch)
Committee	Sentry's ad-hoc Committee of representatives of three Registered Shareholders
Court	the High Court of Justice (Commercial Division) of the Eastern Caribbean Supreme Court (the BVI Court)
Court of Appeal	the Court of Appeal of the Eastern Caribbean Supreme Court (the BVI Court of Appeal)
FGG	Fairfield Greenwich Group, the ultimate parent company of Fairfield Greenwich Bermuda and the marketer of the Funds
KRyS Global	the trading name of Krys & Associates (BVI) Limited
Lambda	Fairfield Lambda Limited – In Liquidation
Last Report	the Thirteenth Report of the Liquidators, dated 27 November 2017
Liquidators	the current Liquidators of the Funds, Kenneth M. Krys and Charlotte E. Caulfield, and where appropriate this term is also used to collectively describe the acts of the former Liquidators
Non-BLMIS Investments	Investments made by Sentry into allegedly bona-fide investments, largely in "seedling" or start-up funds and non-SEC regulated entities
PwC	collectively the Funds' former Auditors, respectively PricewaterhouseCoopers LLP (a Canadian entity) ("PwC Canada") and PricewaterhouseCoopers N.V. (a Dutch entity) ("PwC Netherlands")
Registered Shareholders	those shareholders who pursuant to Articles 8 of the Funds' Articles of Association are recognized

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (All In Liquidation)
14th Interim Report of the Liquidators
31 August 2018

Rules	the Virgin Islands Insolvency Rules, 2005 (as amended)
Sentry	Fairfield Sentry Limited – In Liquidation
Sigma	Fairfield Sigma Limited – In Liquidation
SIPA	(US) Securities Investor Protection Act 1970
US Trustee	Mr Irving Picard, the trustee appointed by the US Federal Bankruptcy Court pursuant to the SIPA provisions, in the liquidation of BLMIS

2. INTRODUCTION

2.1 This Report provides an update to creditors and Registered Shareholders as to the status regarding the current position of the liquidations of the Funds and the work performed by the Liquidators since the Last Report.

Appointment

2.2 The Funds were placed into liquidation by orders of the Court dated 23 April 2009 (Lambda) and 21 July 2009 (Sentry and Sigma).

Duty to Report

2.3 The Liquidators are not obliged, either under the provisions of the Act or the Rules or under any of the orders of the Court pursuant to which they were appointed, to provide a report on their acts and dealings and the conduct of the liquidations until their conclusions. However given the size and scope of the liquidations of the Funds the Liquidators wish to keep the Creditors and Registered Shareholders of the Funds apprised of the current status of the liquidations, and they expect to continue to provide reports periodically.

2.4 The Liquidators recognize that each of the Funds is a separate legal entity. However, given the similarities between the Funds and their collective history, the Liquidators determined that a single consolidated report is appropriate. Where the contents of this Report relate to one specific fund, this is stated.

2.5 There have been 13 prior interim consolidated reports of the Liquidators, including the Last Report, and these should be read in conjunction with this Report. These prior reports are available at www.fairfieldsentry.com, www.fairfieldsigma.com, www.fairfieldlambda.com.

Restrictions and Qualifications of the Report

2.6 The purpose of this Report is to provide an update to the Creditors and Registered Shareholders on the work performed by the Liquidators since the Last Report.

2.7 The Liquidators rely on the information provided to us and have noted the source of the information in previous reports to which the reader is referred. KRYS Global is not responsible for any errors or omissions, or for the results obtained from the use of this information. No audit pursuant to Generally Accepted Accounting Principles or as prescribed by any professional accounting body has been performed by KRYS Global either with respect to the information included in this Report or any other information supplied. Any opinions, advice or estimates contained in this publication represent the judgment of KRYS Global at this time and subject to change as circumstances vary.

- 2.8 This Report is not intended for general circulation or publication, nor is it to be reproduced or distributed to any third party without the Liquidators' prior written consent. This Report is not to be relied upon by third parties without the Liquidators' prior written consent and no liability will be accepted for such unauthorized reliance.
- 2.9 The Liquidators report solely upon the information available to them at the time of this Report and they will update the Creditors and Registered Shareholders in future reports at their discretion 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.
- 2.10 By receiving and reviewing this Report, the recipient expressly agrees, represents and warrants to the Liquidators that dissemination of this Report is restricted to its intended recipients only and nothing in this Report may be used in any manner in relation to any proceeding (including, without limiting the generality of the foregoing, proceedings or intended proceedings, against the Funds or the Liquidators) or otherwise without the Liquidators' express written consent obtained in advance.

Scope of Work Performed

- 2.11 The powers of the Liquidators are in accordance with the provisions of Schedule 2 of the Act and these are set out in the orders of their appointment issued by the Court dated 23 April 2009 (Lambda) and 21 July 2009 (Sentry and Sigma). The Act and Rules are available to download from the BVI Financial Services Commission website: www.bvifsc.vg.

Performance of Duties

- 2.12 In order to comply with their duties and obligations the Liquidators have been assisted by personnel of KRyS Global, whose work has been performed under the direction of the Liquidators.

Currency

- 2.13 All references to \$ in this Report refer to the US dollar unless otherwise specified.

3 EXECUTIVE SUMMARY

- 3.1 In the Last Report, the Liquidators reported they had been able to progress two important objectives in the liquidation: one is the payment of a First Interim Distribution to Registered Shareholders of Sentry; and the second is receipt of a final order on the Farnum litigation in the US, which permitted the Liquidators to obtain sanction from the BVI Court to pay a Second Interim Distribution to Registered Shareholders.

- 3.2 Since that time, the Liquidators' efforts have been directed to progress where possible the various asset recovery proceedings and identify other means to distribute assets to Registered Shareholders. In that respect, the Liquidators have had two important developments:
- The Liquidators have obtained sanction of the BVI Court to compromise the claims subsisting between Sentry and Sigma; and Sentry and Lambda. The compromise removes the hurdles that Sigma had to distribute assets to Registered Shareholders, and permits Lambda to similarly make distributions to Registered Shareholders, once it has sufficient assets to do so. It also enables Sentry to make a third distribution to Registered Shareholders upon sanction from the BVI Court, to take place at earliest possible date and not later than the end of 2018.
 - Limited progress in the US Bankruptcy Court on the Liquidators' US "clawback" claims against Registered Shareholders and their underlying clients who redeemed from the Funds prior to the Funds going into liquidation.

4 ANALYSIS OF WORK PERFORMED TO DATE

Compromise between Sentry and each of Sigma and Lambda

- 4.1 In the Last Report, we reported that there were various obstacles, which restricted the Liquidators' ability to make a distribution to Sigma's and Lambda's creditors and Registered Shareholders. In May 2018, the Liquidators applied to the Court for directions on the issues it was facing and a compromise it was proposing to address the concerns. Having heard the Liquidators, the BVI Court directed that an *amicus curiae* ("friend of the court") be appointed to assist the Court in determining whether the Liquidators' proposals were for the benefit of Sigma and Lambda, and to make a recommendations to the Court regarding his assessment in this regard. In this role, Mr John Carrington QC, of Sabal's Law, a BVI law firm, was appointed.
- 4.2 Following a hearing in June 2018, the Court sanctioned the proposed compromise agreement between the Funds. The orders for all three Funds is sealed, and therefore not available to creditors and Registered Shareholders without sanction of the BVI Court.

4.3 As a result of the compromise, the Liquidators intend to make applications to the BVI Court in the coming months for sanction to declare a third interim distribution in Fairfield Sentry Limited (in liquidation) and a first interim distribution to Registered Shareholders (as all creditors will be paid or provided for) in Fairfield Sigma Limited (in liquidation). Fairfield Lambda Limited (in liquidation) is not in a position currently to make any distribution to its creditors and registered shareholders, as it has no current assets. It is hoped that this position will change as either Fairfield Sentry Limited continues to make distributions or as other potential recoveries come in. The Liquidators have made an application for sanction to make the proposed distributions, which is due to be heard by the BVI Court in October 2018. Assuming approval is given, as the Liquidators anticipate, then the Liquidators will pay a third distribution of \$15 per share to the Registered Shareholders of Sentry, and a first distribution of \$7 per share to the Registered Shareholders of Sigma.

Claims against the Funds' Redeeming Investors

4.4 As previously reported, one aspect of the Liquidators' asset recovery strategy has been the pursuit of proceedings in the US against Registered Shareholders and their underlying clients who redeemed from the Funds prior to the Funds going into liquidation. The Liquidators' claims were brought under various causes of action, including common law restitutionary claims, contractual claims and statutory avoidance claims pursuant to the Act. These claims have at all times been pursued with the sanction of the Court (or in some instances the Court of Appeal).

4.5 In the Last Report, we reported that the Court of Appeal heard the appeal of the decision declining certain defendants' application pursuant to Section 273 of the Act to injunct and restrain the Liquidators from continuing to prosecute the US redeemer claims. Only one group of the appellants has decided to appeal a certain aspect of the decision to Privy Council.

4.6 In January 2018, in the US, the Bankruptcy Court heard oral argument regarding the defendants' omnibus motion to dismiss the US redeemer claims.

4.7 On 6 August 2018, Bankruptcy Judge Bernstein issued a Memorandum Decision and Order Regarding the Defendants' Motions to Dismiss for Want of Jurisdiction ("the Order"). The Order deferred for another day deciding whether the motions to dismiss should be granted or denied (in whole or part), and instead the Bankruptcy Court left open for further development among the parties and the Bankruptcy Court the issue of how the Bankruptcy Court could approach threshold jurisdictional issues in a manner that would allow the Bankruptcy Court ultimately to rule on all the issues presented by the motions to dismiss.

- 4.8 In the Order, the Bankruptcy Court rendered two decisions. First, it held for the Liquidators on the issue of federal bankruptcy subject matter jurisdiction, ruling that *"it [the Bankruptcy Court] has 'related to' subject matter jurisdiction over the US Redeemer Actions."* Second, the Bankruptcy Court disagreed with the Liquidators on the effect of the forum selection clause in the Subscription Agreement, holding that it does not apply to the US Redeemer Actions. However, because the Liquidators had presented the Bankruptcy Court with various alternative bases for US personal jurisdiction in addition to the forum selection clause, the Bankruptcy Court recognized and ruled that its *"disposition of the effect of the forum selection clause in the Subscription Agreement does not resolve the Foreign Defendants' jurisdictional objections."*
- 4.9 The Bankruptcy Court left to be decided the manner in which these remaining personal jurisdictional issues will be resolved, which it deemed the prudent course, *"before going any further and reaching the merits"* of the arguments on the remaining issues raised in the motions to dismiss. The Bankruptcy Court directed the parties to contact chambers to schedule a hearing to discuss the parties' suggestions and consider potential approaches, including the Bankruptcy Court's own suggestion that a *"more efficient procedure may be the agreement by the Foreign Defendants to be bound by the Court's determination of the motions, without otherwise waiving any objections to personal jurisdiction."* A proposed stipulation to address the Bankruptcy Court's suggestion is currently being discussed between the parties.

Section 273 Application by FGG

- 4.10 In the Last Report, we reported that the Liquidators had rejected the indemnity claims made by one particular former service provider, FGG (including its predecessor entity), and those made by a former director, Walter Noel and former company secretary, Jeffrey Tucker. The decision of the Liquidators has been challenged pursuant to Section 273 of the Act.
- 4.11 The Court heard preliminary issues in the matter in January 2018 and a decision was handed down in March 2018, which found substantially in favour of the Liquidators (save for one matter concerning the *Morning Mist* proceedings in the US, where the amount at stake is in the region of \$1 million). The applicants have sought and obtained sanction to appeal the decision. The appeal relating to the construction of the investment management agreement indemnity was heard in July 2018, and the Court of Appeal reserved judgment. The appeal with regard to the remaining aspects has not been yet fixed by the Court of Appeal for a hearing. With regard to the *Morning Mist* matter, further evidence has been submitted and a court date is awaited which is likely to be in 2019.

Claims against the Funds' former auditor, PricewaterhouseCoopers

- 4.12 In the Canadian proceedings, the Liquidators' appeal of the summary judgment decision was heard by the Canadian Court of Appeal in April 2018. The Canadian Court of Appeal issued its decision unanimously dismissing the appeal. The Liquidators are considering with the legal counsel whether there are any merits to appeal to the Canadian Supreme Court.

- 4.13 In the Netherlands proceedings, the District Court ordered a further oral hearing in those proceedings, which took place in June 2018. The District Court has indicated that it expects to render a decision in September 2018.

Claims against the Funds' former Administrator, Custodian and Banker, Citco

- 4.14 During the period of the Report, the claims remained subject to a tolling agreement, which has been extended again up until 23 February 2019.

SIPA Distribution

- 4.15 In February 2018, the US Trustee declared a further distribution of 3.806% of allowed claims. Sentry has an allowed claim of \$230 million and accordingly received a further distribution of \$8,753,800, bringing the total received to \$147 million (62.6% of the allowed claim).

Court applications and Ad-hoc Committee

- 4.16 The terms of the Liquidators' appointments are such that prior sanction must be sought from the Court in respect of inter alia the commencement, continuation or defense of any legal action and the compromise of any claims by or against the Funds. As set out above, a number of matters have progressed since the Last Report, which has meant that the Liquidators, through their BVI counsel, have had to make a number of applications to the Court in order to progress these matters.
- 4.17 The Liquidators consult with the Committee on a number of recovery matters relating to Sentry and keep the Committee apprised as to their activities and strategies by what of written updates and memoranda. Whilst the occasions when the Liquidators consult with the Committee has reduced over time, the Liquidators generally hold conference calls with the Committee on a quarterly basis, with face to face meetings when appropriate.
- 4.18 Some members of the Committee are conflicted from providing consultations on the redeemer claims, as they themselves are defendants to redeemer claims brought by the Liquidators. A sub-committee therefore exists which now consists of one of the Committee members who is non-conflicted and with whom the Liquidators can have an open dialogue regarding the redeemer claims, settlements and other associated matters.
- 4.19 The Committee is actively involved in reviewing and consulting on the Liquidators' fees and expenses in Sentry's liquidation and its views are brought to the attention of the Court when it reviews and approves these costs.

5 FINANCIAL ANALYSIS

- 5.1 At this juncture in the liquidations of the Funds, as far as the Liquidators are aware, all cash and assets are known and under the control of the Liquidators. The remaining assets to be monetized are a small portfolio of non-BLMIS investments, any future distribution on the SIPA claim in BLMIS (see discussion at 4.15) and recoveries on the Funds' claims against pre-appointment redeemers and former service providers. Similarly, the Liquidators have paid or provided for all liabilities of Sentry and Sigma, including the US Trustee, liabilities to late subscribers and the FGG claims (see discussion at 4.11).
- 5.2 Appendix A details the cash receipts and disbursements since the commencement of the liquidations. The cash receipts and disbursements include the terms arising from the sanction of the compromise agreement, despite that some of the transactions contemplated have not been effected at the date of this Report. As at 31 July 2018 the Liquidators have achieved recoveries in Sentry, Sigma and Lambda of \$539 million compared with cash disbursement of \$253 million, representing a net cash inflow of \$286 million.
- 5.3 The next fee application is scheduled to be heard by the Court on 23 October 2018, in respect of the fees and expenses generally incurred from 1 June 2018 to 15 September 2018. In accordance with the provisions of the Act, the Liquidators' remuneration is based upon their time costs.

6 CONCLUSION

- 6.1 The Liquidators' efforts since the Last Report have been directed to progress where possible the various asset recovery proceedings and identify other means to distribute assets to Registered Shareholders. The Liquidators have been further successful in this objective with the recent sanction of the compromise between Sentry and each of Sigma and Lambda. There has been some progress on the US redeemer actions as well.
- 6.2 To a certain extent, future recoveries will be dependent on how the Bankruptcy Court determines the other arguments put forward by the defendants in their motions to dismiss the US redeemer claims. In addition, the Liquidators will consider whether to appeal the recent decision in the Canadian Court of Appeal and await a decision in the Netherlands or Canada with regard to recovering monies from the Funds' former auditors, PwC.

Should you have any queries please do not hesitate to contact fairfieldsentry@KRYS-Global.com; fairfieldsigma@KRYS-Global.com; or fairfieldlambda@KRYS-Global.com, quoting your Holder and Account ID numbers.



Charlotte Caulfield
Joint Liquidator

31 August 2018

APPENDIX A

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited – All In Liquidation
Liquidators' cash receipts and disbursements statement
For the period to 31 July 2018

	SENTRY USD \$ 31-Jul-18	SIGMA USD \$ 31-Jul-18	LAMBDA USD \$ 31-Jul-18	TOTAL USD \$ 31-Jul-18
Cash Receipts				
Cash Held At Citco	70,099,114.70	62,411,835.00	-	132,510,949.70
Other Cash at Bank	-	260,264.82	-	260,264.82
Cash - Transfer in Process	52,004,264.53	-	-	52,004,264.53
Non-BLMIS Investments	78,555,565.55	-	-	78,555,565.55
Pre-Liquidation Redemption Receipts	39,446,192.46	2,508,794.90	-	41,954,987.36
US Trustee Redemption Recovery Allocation	31,479,235.74	41,532,739.92	-	73,011,975.66
Distributions on SIPA Claim in BLMIS	147,479,200.00	-	-	147,479,200.00
Recovery of retainers	-	316,952.00	-	316,952.00
Interest received	2,876,273.16	3,194,182.45	-	6,070,455.61
Other Income	11,866.01	-	-	11,866.01
Loan Receivable	-	113,551.38	-	113,551.38
Distribution from Sentry	-	6,877,887.24	326,064.29	7,203,951.53
	<u>421,951,712.15</u>	<u>117,216,207.71</u>	<u>326,064.29</u>	<u>539,493,984.15</u>
Cash Disbursements				
Payment Pursuant to Agreement	70,000,000.00	-	-	70,000,000.00
Payment Pursuant to Compromise	-	52,004,264.53	-	52,004,264.53
Allocation to Trustee of Redemption Receipts	2,409,479.00	292,608.00	-	2,702,087.00
Database & web fees	639,927.16	10,135.54	-	650,062.70
Office rental expenses	13,200.00	18,800.00	-	32,000.00
Petitioner's Costs	1,173,430.83	-	-	1,173,430.83
Interest Paid	-	1,678,574.97	58,199.56	1,736,774.53
Bank charges and other costs	158,301.85	39,597.46	-	197,899.31
	<u>74,394,338.84</u>	<u>54,043,980.50</u>	<u>58,199.56</u>	<u>128,496,518.90</u>
Net Cash Before Liquidators Fees and Expenses and Distributions	<u>347,557,373.31</u>	<u>63,172,227.21</u>	<u>267,864.73</u>	<u>410,997,465.25</u>
Legal fees and expenses				
Legal fees and expenses	60,098,432.16	12,450,959.22	461,444.48	73,010,835.86
Legal Contingency Fees	5,853,508.26	7,586,912.41	-	13,440,420.67
Liquidators fees and expenses	31,599,895.27	1,748,127.80	263,828.24	33,611,851.31
Adverse Costs	3,625,200.00	-	-	3,625,200.00
Other professional fees	1,018,165.10	47,210.01	-	1,065,375.11
Liquidation committee expenses	153,128.79	-	-	153,128.79
Fees Paid on behalf of Lambda	253,583.00	10,245.24	(263,828.24)	-
Interest Due to Sentry	58,199.56	-	(58,199.56)	-
Legal Fees Paid on behalf of Lambda	135,380.19	-	(135,380.19)	-
	<u>102,795,492.33</u>	<u>21,843,454.68</u>	<u>267,864.73</u>	<u>124,906,811.74</u>
Net Cash Before Distribution to Creditors and Shareholders	<u>244,761,880.98</u>	<u>41,328,772.53</u>	<u>-</u>	<u>286,090,653.51</u>
Distribution to Trade Creditors				
Distribution to Trade Creditors	238,262.81	-	617,887.68	856,150.49
Payment of Loan on Behalf of Lambda	617,887.68	-	(617,887.68)	-
Due to/from Sentry	-	-	-	-
Due to Sentry	-	-	-	-
Compromises Paid to Unpaid Redeemers	3,727,564.43	-	-	3,727,564.43
Distributions to Registered Shareholders	54,682,436.90	-	-	54,682,436.90
	<u>59,266,151.82</u>	<u>-</u>	<u>-</u>	<u>59,266,151.82</u>
Net Cash Position	<u>185,495,729.16</u>	<u>41,328,772.53</u>	<u>-</u>	<u>226,824,501.69</u>
Net Cash Position Consists of:				
Unencumbered Cash	97,203,478.40	41,328,772.53	-	138,532,250.93
Distributions Held in Escrow	88,292,250.76	-	-	88,292,250.76
	<u>185,495,729.16</u>	<u>41,328,772.53</u>	<u>-</u>	<u>226,824,501.69</u>
Closing Balance made up of:				
General Accounts	48,332,324.63	93,333,037.06	-	141,665,361.69
Transfer in process to effect Compromise	52,004,264.53	(52,004,264.53)	-	-
Account holding SIPC Receipts	85,159,140.00	-	-	85,159,140.00
Cash Position as Per Bank	<u>185,495,729.16</u>	<u>41,328,772.53</u>	<u>-</u>	<u>226,824,501.69</u>

Notes

The receipts and disbursements account reflects cash transactions since the liquidation date as approved by the Court

