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A LETTER FROM THE EXECUTIVE DIRECTOR OF THE IAFE

Dear Subscribers,

Happy new year! Less than two months into 2004, we have already had the pleasure of welcoming so many of you at our two February events, which are discussed below. As we prepare to announce our spring series of events, I look forward seeing and hearing from even more of you!

IAFE/SunGard Financial Engineer of the Year Award Dinner, February 5, 2004

The IAFE was delighted to host the annual Financial Engineer of the Year Award Dinner at the United Nations in New York City on the evening of February 5, 2004. More than 300 people gathered to honor the achievements of Dr. Darrell Duffie, the James Irvin Miller Professor of Finance at the Graduate School of Business at Stanford University and the 2003 recipient of the IAFE/SunGard Financial Engineer of the Year Award. The FEOY Award recognizes individual contributions to the advancement of financial engineering. The eleventh recipient of the award since its inception in 1993, Dr. Duffie joins a prestigious list of individuals who have contributed to the advancement of financial engineering technology.

The highlight of the evening's program was Dr. Duffie's gracious thank you speech, in which he discussed the ways that each of his guests at the dinner had contributed to his work. The IAFE is pleased to announce that Dr. Duffie will join us as the keynote speaker at the IAFE annual conference, which is scheduled for June 3 in New York City, during which he will present his main academic talk as the 2003 Financial Engineer of the Year.

The IAFE's new Chairman, Richard Lindsey, President of Bear Stearns Securities Corp., began the award dinner program with opening remarks and a welcome to our guests. Annie Bystryn, the Executive Director of the IAFE, spoke next and thanked Tanya Beder, the Chairman of the IAFE from September 1997 through December 2003, for her tremendous and truly invaluable work on the organization's behalf as IAFE Chairman. Annie also welcomed Richard again as the new Chairman of the IAFE. Richard then described the history of the Financial Engineer of the Year Award and reviewed the former recipients.

The program continued with IAFE Senior Fellow Andrew Lo. Andrew was the Chairman of the Selection Committee for the 2003 Financial Engineer of the Year and presented remarks on the process behind the FEOY Award. Next, David Rowe, IAFE Board Member, spoke on behalf of SunGard and presented the award to Dr. Duffie.

After a break for dinner, the program continued with Joe Langsam from Morgan Stanley who gave a wonderful introduction for Dr. Duffie, which outlined his professional achievements and provided a few personal insights into the evening's honoree. Dr. Duffie then presented his own remarks, after which guests were invited to mingle further over coffee and dessert. All in all, the evening was a remarkable success and a genuinely enjoyable evening for everyone. We extend our sincere thanks again to all of the participating companies, who are listed at the back of this issue.

IAFE White Paper on Valuation Concepts

On November 21, the IAFE Investor Risk Committee released a new white paper entitled "Valuation Concepts for Investment Companies and Financial Institutions and their Stakeholders" for a period of public comments. Valuation is a keystone of the asset-and-liability management business. Properly valuing portfolios requires well-designed systems, procedures, policies and people. To assist all stakeholders, the IAFE Investor Risk Committee has produced a list of concepts to promote a thoughtful discussion around the many issues related to valuation.

The IAFE released this document as a working draft with the hope of promoting further debate and soliciting additional comments. "Valuation Concepts for Investment Companies and Financial Institutions and their Stakeholders" can be viewed on the IAFE's web site, www.iafe.org. Readers can direct their comments to the IAFE at valuations@iafe.org.

IAFE Investor Risk Committee Forum on Valuation, February 6, 2004

On February 6, the IAFE Investor Risk Committee convened a half-day open forum to discuss the white paper on valuation concepts that it released last November. Leon M. Metzger, the Chair of the IAFE Advisory Board and editor-in-chief of the valuations paper, chaired the forum and encouraged the 160 attendees to contribute their comments to the document. Surprisingly, attendees who spoke during the forum commented on the descriptive rather than prescriptive nature of the paper. During the sessions, Metzger explained that the IAFE had found that it was very difficult to prescribe valuation policies and procedures because "one size does not fit all" and, therefore, what is critical is that investors understand better how financial assets and liabilities are valued.

Giovanni Beliossi (FGS Capital), the European Chair of the IAFE Investor Risk Committee, moderated the first panel of the day, which was entitled "Valuation & Transparency: The Challenges of Implementation and Execution." Panelists—Carolyn Jackson (Allen & Overy), Andrew Lo (AlphaSimplex and MIT), Leo Lueb (PGGM), Maarten Nederlof (K2 Advisors) and David Rowe (SunGard Trading & Risk Systems and IAFE Board Member)—and attendees agreed that valuation issues arise in multiple areas of money management and investment firms, such as trading, operations and risk management. Forum participants suggested three crucial principles to assess valuation procedures: methodology, consistency of application throughout the investment firm, and independence.

Leslie Rahl (Capital Market Risk Advisors and IAFE Board Member) chaired the forum's second panel, entitled "The Way Forward: Will Structures of Responsibility Change as Investment Funds Move Towards Institutionalization?" John Budzyna (Ernst & Young), Richard Perry (Simmons & Simmons), Anne Popkin (Financial Risk Management) and Bill Ullman (Bear Stearns) completed the panel. The speakers examined the current roles and respective responsibilities of managers, fund of fund managers, prime brokers, auditors, administrators, lawyers and other parties in the valuation process. Both panelists and audience participants shared their opinions regarding different parties' roles in the valuation process as well as possible discrepancies in the structure of responsibility as each group might view it.

It has been lovely to begin the new year by welcoming so many new and familiar faces to our February events. We look forward to announcing our spring series of forums shortly and working with many of you on a host of projects that we have planned for 2004!

Best regards,

ANNIE BYSTRYN
Executive Director, IAFE