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1 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
2
3 In the Matter of: )
4 ) File No. FW-2973
5 STANFORD GROUP COMPANY )
6
7 WITNESS: Michael Zarich
8 PAGES: 119 through 296
9 PLACE: U. S. Securities and Exchange Commission
10 Fort Worth Division of Enforcement
11 801 Cherry Street, 19th Floor
12 Fort Worth, Texas 76102
13 DATE: Wednesday, February 4, 2009
14
15 The above-entitled matter came on for hearing, pursuant
16 to notice at 10:00 a.m.

Diversified Reporting Services, Inc.
(202) 467-9200

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Table with 3 columns: EXHIBITS, DESCRIPTION, IDENTIFIED. Contains 14 rows of exhibit information.

PROCEEDINGS

1 MR. KELTNER: We'll go ahead and go on the record
2 at 10:00 a.m. This is a continuation of Mr. Zarich's
3 testimony.
4
5 I'm just reminding Mr. Zarich, you remain under
6 oath, so same rules, same procedures that we talked about
7 last time will apply today.

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1 APPEARANCES:
2 On behalf of the Securities and Exchange Commission:
3 KEVIN EDMUNDSON, ESQ.
4 MICHAEL KING, ESQ.
5 D. THOMAS KELTNER, ESQ.
6 DAVID REECE, ESQ.
7 CRAIG ELLIS, Accountant
8 Division of Enforcement
9 United States Securities
10 and Exchange Commission
11 801 Cherry Street, 19th Floor
12 Fort Worth, Texas 76102
13
14 On behalf of the witness:
15 PATRICK K. CRAINE, ESQ.
16 Bracewell & Giuliani
17 1445 Ross Avenue, Suite 3800
18 Dallas, Texas 75202
19
20
21
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Table with 2 columns: WITNESS, EXAMINATION. Lists Michael Zarich and Page 2.

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THE WITNESS: Okay.

8 Whereupon,
9 MICHAEL ZARICH
10 was recalled as a witness and, having been previously duly
11 sworn, was examined and testified further as follows:
12 EXAMINATION
13 BY MR. KELTNER:
14 Q The last time when we left off we had spent a lot
15 of time talking about SAS and NFP, and you really just
16 started to touch issues related to the CD program, and your
17 move to Antigua.
18 A Yes.
19 Q And we talked a little bit about that obviously,
20 before, in an informal interview. But I want to go ahead
21 briefly today and talk about, just from the beginning, how
22 you were approached to make the move down to Antigua, who
23 approached you. Just kind of start there.
24 A I was approached, I want to say, in probably August

1 of 2005 by Jim Davis, who is the CFO of Stanford Financial
2 Group. He offered me the position of senior investment
3 officer, which would be an investment officer on-site at the
4 Bank of Antigua. I accepted the position and then we
5 commenced it to a three-, four-month training period with
6 Laura Pendergest for a start date of January 1st, 2006.
7 Q Okay. Initially, how did Mr. Davis explain the
8 position to you?
9 A It was a strategic vision of him and Al Stanford to
10 have an investment person on-site at the bank that could
11 speak more intelligently to how the assets were managed at

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12 the bank for respective clients and financial advisors, or  
 13 existing clients that visit the bank to start their due  
 14 diligence process.  
 15 Q Okay. So to play a role in the sales process?  
 16 A Yes.  
 17 Q Okay, and specifically the sales of certificates of  
 18 deposit?  
 19 A Yes.  
 20 Q More generally though what were you told your  
 21 responsibilities would be in terms of being an investment  
 22 officer?  
 23 A To work with the investment committee of Stanford  
 24 National Bank, which would be Jim Davis, Allen Stanford, and  
 25 specifically the chief investment officer of the Stanford

1 Financial Group, Laura Pendergest, and a team of analysts in  
 2 Memphis, in helping oversee and monitor the portfolio but  
 3 specifically to speak of that somewhat, I guess, as a liaison  
 4 between this investment committee and the analysts to talk  
 5 about a portfolio to these client prospects.  
 6 Q Okay, so you help explain how the assets are  
 7 invested to prospective clients?  
 8 A Yes.  
 9 Q Okay. But what was your actual oversight role to  
 10 be? I mean what were you told in terms of were you going to  
 11 be overseeing the portfolio. Were you going to be actively  
 12 involved receiving reports daily, weekly?  
 13 A Initially, none. I was under the impression I  
 14 would be more involved with the investment side. I think as

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19 A The portfolio was divided into essentially three  
 20 tiers: tier one, tier two, tier three. Tier one is cash;  
 21 tier two is an investable portfolio of stocks, bonds,  
 22 alternative investments, commodities. Some cash as well that  
 23 is under Laura Pendergest, the chief investment officer and  
 24 her team of analysts that I would be more from an oversight  
 25 and monitoring privy to that side of the portfolio. And tier

1 III was under the discretion of Jim Davis and Allen Stanford.  
 2 And at the time, I have an impression, over time I would be  
 3 privy to more of the portfolio, meaning tier III.  
 4 Q We talked a little before we went on the record,  
 5 giving you a preview of some of the things we might look at.  
 6 That included some of these Q and A documents that we worked  
 7 through in Memphis. There's a lot of discussion in those  
 8 documents or at least mention of the different tiers. What  
 9 were you told during the training sessions about what was in  
 10 tier III?  
 11 A That it was similar to tier II, that it was an  
 12 investment portfolio of stocks, bonds and equities, utilizing  
 13 some of the same private banks or institutional money  
 14 managers out of Europe, primarily, but it was proprietary  
 15 then.  
 16 Q And who told you that?  
 17 A Laura.  
 18 Q Laura Pendergest?  
 19 A Yes.  
 20 Q Laura Holt? I'm sorry. Which do you call her?  
 21 A Pendergest. I take it she's married -- Holt --

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15 I mentioned on the call it did turn out to be more of a  
 16 marketing position, but just monitoring the portfolio, never  
 17 investing. I was never under the impression I would be  
 18 involved at that level of the portfolio to move money, invest  
 19 money, but just be privy of how some of the money is managed.  
 20 Q Okay. You said initially you were under the  
 21 impression. Did you get that impression for Mr. Davis?  
 22 A Yes.  
 23 Q Okay. And so after you spoke with Mr. Davis, you  
 24 had the impression that you would be overseeing the  
 25 investment portfolio on some level, even if you weren't

1 actively involved in the day-to-day trades?  
 2 A That's correct.  
 3 Q And did you get a similar message from Ms.  
 4 Pendergest?  
 5 A Yes.  
 6 Q So once the training commences, is your role  
 7 explained to you any differently, or are you continuing to  
 8 have that same impression?  
 9 A The difference is and I should backtrack a little.  
 10 I was under the impression that I would under time get to see  
 11 more and more of the portfolio to be able to explain it  
 12 better to clients. So going into the training it became  
 13 clear that I would be overseeing parts of the portfolio but  
 14 enough of the portfolio to hopefully speak intelligently to  
 15 potential investors on how the assets of the bank were  
 16 managed.  
 17 Q So what were you told in terms of which parts of  
 18 the portfolio you would be able to see?

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22 okay, I believe so.  
 23 Q Again, we'll drill on this a little bit more later,  
 24 but one thing with is the proprietary nature of tier III,  
 25 because looking through the Q and A documents, it looks like  
 1 when clients inquired about tier II, they were told. Well,  
 2 what were they told when they inquired about tier II? If  
 3 they called up and said I want to see what's in tier II.  
 4 A I don't remember talking about the tiers to  
 5 clients. I think that was part of training.  
 6 MR. KELTNER: Sure. Sorry, I'll try not to clip  
 7 your answers.  
 8 BY MR. KING:  
 9 Q You said part of your training was not to talk  
 10 about the tiers?  
 11 A Correct. To a prospect of tier I, tier II, tier  
 12 III, that was more of an internal accounting process?  
 13 Q Who trained you to do that?  
 14 A Laura Pendergest.  
 15 BY MR. KELTNER:  
 16 Q Let me ask you more generally. When a client  
 17 called or a prospective client was on the island, and they  
 18 said, I'd like to see the investment portfolio, presumably  
 19 you were talking to a big fish, \$5 million plus investors?  
 20 A Yes.  
 21 Q I assumed, at least, a few of them asked what money  
 22 was invested?  
 23 A All of them.  
 24 Q Okay. And when they asked that, what did you tell  
 25 them, that is, what were you coached to tell them by

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1 Pendergest?  
 2 A That the portfolio was allocated amongst 25 or so  
 3 private banks, institutional money managers located primarily  
 4 in Europe. Each manager or bank has a long-standing  
 5 relationship with the bank, manages a sleeve of the overall  
 6 assets, and each one has their own diversification about the  
 7 invested objectives, so it's kind of a further institutional  
 8 diversification among these 25 entities.  
 9 Q Did any of the prospective clients want to drill  
 10 down further and say that's great, but I want to see what  
 11 they've invested in?  
 12 A Yes.  
 13 Q Okay. And then what did you tell them?  
 14 A You know, we'd give him asset allocation, try to  
 15 drill down from a macro level, mention some name of these  
 16 banks, but if it did happen, they'd just push, push, push.  
 17 Give me an actual security. Give me something. It was  
 18 proprietary nature would be my answer. It's the desire of  
 19 the board of directors not to give that information; and,  
 20 it's also part of the regulation of the bank, being chartered  
 21 as a bank. In Antigua we cannot sell investments or sell  
 22 CDs.  
 23 Q Okay, so again I'm trying to wrap my head around,  
 24 and you haven't been there. I'm hoping you can help me with  
 25 this. You said tier III was proprietary and that's why you

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5 A Never.  
 6 Q Okay. So, you know, 4-1/2 billion, 4 billion,  
 7 whatever the number is, you never saw, never had access to?  
 8 A Correct.  
 9 Q Since we're going down that path, before we  
 10 directly into the Q and A documents, I think you told me you  
 11 talked to a few of the analysts in Memphis.  
 12 A I did a part of my training, and as we mentioned  
 13 last week, I was up there a lot anyway with my role with the  
 14 investment advisor group, but I didn't spend time at all.  
 15 Q Okay. And did you also see a few of them at  
 16 Antigua from time to time?  
 17 A That's correct. The analysts rotated on two-week  
 18 rotations, two at a time, continuously, while I was in  
 19 Antigua.  
 20 Q Okay, when you spoke with them, I would think just  
 21 as an investment professional and out of curiosity, you know,  
 22 given the bank's impressive track record -- you know, hitting  
 23 their 15 percent roughly for 20 consecutive years -- did you  
 24 ever ask this? How do we do it? What's in tier III? Did  
 25 you ever ask that question?

1 A Not tier III, but about I should say each of the  
 2 analysts were charged with overseeing a particular bank or  
 3 financial institution out of these 25, give or take. So I  
 4 would talk specifically about their particular manager that  
 5 their monitoring.  
 6 Q I think earlier you said that you expected that  
 7 eventually you'd see more of the assets, but you never saw

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1 never saw it. Correct?  
 2 A Yes.  
 3 Q Okay. What's the difference between tier II and  
 4 tier III when investors aren't allowed to see tier II either?  
 5 A They don't see the difference.  
 6 Q Well, I mean, how is tier III proprietary and tier  
 7 II different?  
 8 A Proprietary might not be the right word. I think  
 9 proprietary, from me, so that being the big difference is the  
 10 size of tier III and assets is the assets of the bank.  
 11 Q So, let's talk about that a little bit. So tier I  
 12 is cash. When you are there can you ball park that for me?  
 13 Is it a hundred million, two hundred million?  
 14 A Three, four hundred million, hundred five, hundred  
 15 million. It definitely fluctuates.  
 16 Q And, you know, we'll look at the investment  
 17 portfolio summaries. But, tier II, you know, can you ball  
 18 park that for me?  
 19 A I think it was a couple hundred million.  
 20 Q Okay, and so you're there, you left in what, '07?  
 21 A Yes, summer of '07.  
 22 Q Okay, so the bank's overall portfolio is up to  
 23 what, about six billion?  
 24 A Five to six billion, yes. Yeah, five and six  
 25 billion.

1 Q Okay, so you, the senior investment officer get  
 2 access to what, 750 million have high-end?  
 3 A In terms of privilege from a day-to-day, yes.  
 4 Q And you never saw tier III?  
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8 tier III. Right?  
 9 A I did not.  
 10 Q Okay. As you're down there and you've been working  
 11 for a year or so, did you ever go back to Jim Davis or Laura  
 12 Pendergest and ask questions about tier III?  
 13 A Not to Jim Davis. And I don't recollect  
 14 specifically to Laura asking about tier III. It's to see  
 15 more of the long portfolio.  
 16 Q So I guess you're kind of the primary investment  
 17 contact when CD investors come down to Antigua. Correct?  
 18 A Yes.  
 19 Q So were they supposed to come down and they want to  
 20 ask you about the investment portfolio, the answers you  
 21 provide are based fairly on tier I and tier II?  
 22 A Yes. And, not necessarily; I mean the allocations  
 23 for the whole portfolio were done quarterly.  
 24 Q When you say allocations, are you talking about  
 25 these percentage breakdowns by asset class?

1 A Right, asset class.  
 2 Q And what about, I guess I've seen pie charts. Is  
 3 that the kind of thing you shared with clients?  
 4 A Yes, there's quarterly publications.  
 5 Q Okay, like in the quarterly reports and then in the  
 6 annual reports?  
 7 A Correct.  
 8 Q Where did you get those allocation numbers?  
 9 A They were down by the Memphis analysts.  
 10 Q Who sent them to you?  
 11 A Well, the quarterly report is kind of a glossy,  
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12 internal document, I think came from Angie Skelton.  
 13 Q One of the analysts?  
 14 A Yes.  
 15 BY MR. KING:  
 16 Q What does the pie chart represent?  
 17 A There were a few. I know one was the allocation  
 18 from the equity fixed-income cash. I think there was one on  
 19 currencies, how the portfolio was allocated amongst  
 20 currencies and then maybe alternative investments, how they  
 21 were allocated among hedge funds and alternatives.  
 22 Q What information would you need to put together the  
 23 pie chart?  
 24 A You would need all the portfolio holdings.  
 25 Q Including tier III?

1 A Yes.  
 2 Q How did you get the pie chart from Angie Skelton?  
 3 A E-mail.  
 4 BY MR. KELTNER:  
 5 Q Were there any assets in tier III just by class  
 6 that were different than tier II? I think you said it was  
 7 very similar, same advisors, stocks, bonds. Did you say  
 8 that?  
 9 A I think it was several of them but I don't know. I  
 10 mean I would infer it as well looking at the quarterly  
 11 reports based on the overall allocation if we were stating 50  
 12 percent in equity that there was 60 percent in equity, but  
 13 what that equity composed of, I didn't know.  
 14 Q okay. What did you tell investors about the

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19 any daily.  
 20 Q So where would that REIT asset show up in the pie  
 21 chart?  
 22 A Alternative.  
 23 Q So if the pie chart's telling me that alternative  
 24 is a 10 percent piece or an 8 percent piece, there shouldn't  
 25 be a big 40 percent real estate piece out there. I mean

1 that's your impression?  
 2 A Yes.  
 3 Q okay. And where did you get that impression?  
 4 A Well, just on I guess the weightings of the  
 5 portfolio.  
 6 Q Just for the pie chart?  
 7 A Yes.  
 8 Q That came out of Memphis?  
 9 A Yes.  
 10 Q So let's talk a little bit about these training  
 11 sessions. So we've seen some of the Q and As and we'll look  
 12 at them here in a minute. Explain to me generally initially  
 13 what do they tell you you were going to be in and then kind  
 14 of how the process worked in terms of training.  
 15 A I would be a point person on island, at the bank,  
 16 to visit with prospective clients, financial advisors and  
 17 existing clients that come down there. I would work with the  
 18 president of the bank, Juan Rodriguez, to help present the  
 19 bank kind of as the sequence of events. He would start it  
 20 off talking about the history of the island and how the bank  
 21 came to be, the history of Stanford Financial, how the bank

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15 alternative assets? Because I want to know what that term  
 16 means to you.  
 17 A Alternatives is an asset class that's not a  
 18 fixed-income, not a security. It's typically less correlated  
 19 to those other asset classes, cash, fixed-income, real  
 20 estate, because it uses typically some hedging, long, short,  
 21 arbitrage, various styles within alternative investments to  
 22 lessen the overall volatility of the portfolios was why it  
 23 would be used, why you would use them.  
 24 Q okay, so I kind of understand what it's not. I  
 25 still don't understand fully what it is. Is it a derivative  
 1 portfolio?  
 2 A It could be derivatives, stocks that short the  
 3 market.  
 4 Q CAGs?  
 5 A You might consider commodity futures trading as an  
 6 alternative.  
 7 Q So I take it you didn't know what was in the  
 8 alternative bucket?  
 9 A I saw the managers I did visit with when I was in  
 10 Europe, some of the underlying managers, but generally more  
 11 from an asset allocation standpoint, broad asset allocation  
 12 standpoint.  
 13 Q Okay. What about exposure to real estate? I think  
 14 I saw in the Q and A something about we don't have any real  
 15 estate exposure. Was that your impression?  
 16 A There was no hard real estate that I knew of, but  
 17 real estate access through refunds, like a real estate  
 18 investment trust fund that tends to be more liquid trade than  
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22 came to be in compliance operations, and I would step in and  
 23 talk about how the deposits, how the assets of the bank are  
 24 managed.  
 25 Q So the high level of presentation on how the CD  
 1 proceeds were invested, basically?  
 2 A Yes.  
 3 Q So allocation type information, but no specifics?  
 4 A Correct.  
 5 Q Were there any hot button issues? Well, for  
 6 example, there's going to be a lot of prospective questions  
 7 from clients in there. Whether things they told you, this is  
 8 what you need to worry about. This is what you need to focus  
 9 on or anything like that.  
 10 A Not to worry, clearly to focus on the questions for  
 11 my piece really came down to just the same questions and just  
 12 a thousand different iterations. How do you do it. How is  
 13 it done. How safe is my money. What are you doing here.  
 14 Just to say over and over.  
 15 Q So in short how do you achieve these impressive  
 16 returns year over year?  
 17 A Cal State is my money. You know, where is the  
 18 money.  
 19 Q And, again, we'll drill down a little bit in a  
 20 minute, but generally what were people told when they asked  
 21 how do I know my money's safe?  
 22 A That it was safer than a traditional bank in that  
 23 there were no loan portfolios. If there was no loan  
 24 portfolio, there's no loan reserves. Being an offer or  
 25 entity that's not regulated by U.S. banking laws, we have the  
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1 flexibility to have this investment portfolio, any markets,  
2 any security, long, sort, cash, flexible, liquid, so a lot of  
3 it I think trying to release a lot of my presentation talked  
4 about how the models were different than what a particular  
5 client might be used to in a banking model.

6 Q And then a distinction between a commercial bank  
7 and a typical commercial bank and Stanford is essentially how  
8 the money is invested?

9 A Correct. You know, a traditional bank, a  
10 commercial bank takes deposits in. It lends them out and  
11 creates a narrower spread, has to keep loan reserves, which  
12 of course erodes more of the capital revenue; whereas,  
13 Stanford International Bank, that model, it invested  
14 therefore potentially creating a larger spread in the global  
15 markets.

16 Q Okay. Well, let's go ahead and let's go quickly.  
17 who was leading your training sessions?

18 A Laura Pendergest and, I apologize, I don't remember  
19 her last name, but there was an external consultant that kind  
20 of facilitated it. It was Tammy, Tamara. It was really the  
21 three of us for a couple of months, not every day.

22 BY MR. KING:

23 Q Before you go too far down the road, I want to go  
24 back to one thing you said just a minute ago. You said that  
25 in your overall focus it was how you do it, the safety of the

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5 take time and review the document, just let me know. At a  
6 high level, what is Exhibit 7?

7 THE WITNESS: This looks to be questions I put  
8 together based on some of my observations. Let me backtrack.  
9 I think the early part of the training I spent one on ones  
10 with each of these analysts and came back to Laura with some  
11 of my initial questions.

12 BY MR. KELTNER:

13 Q So this looks like maybe questions that you had  
14 compiled after you had training sessions.

15 A Early on.

16 Q Okay, and then there are obviously answers in here.  
17 Are these answers that you came up with on your own or were  
18 they based on what you were told by Laura?

19 A These answers were from Laura that I believe I  
20 wrote them in. In other words I don't think she wrote these  
21 in. I believe I asked the questions and probably typed them  
22 in and wrote them in.

23 Q Okay. So do you think you had collected a bunch of  
24 questions and then perhaps had a meeting on October 24th with  
25 Laura where you asked her the questions?

1 A Correct.

2 Q And then are you sitting there with a laptop typing  
3 in answers as you go or are you taking notes?

4 A I would guess I was with a laptop taking notes.

5 Q So you're taking these answers down live as Laura's  
6 giving them to you?

7 A Most likely, but don't recollect for certain.

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1 money and where is the money. And I think you just told us  
2 about what you would say when someone would ask about the  
3 safety of the money.

4 A Right.

5 Q What do you say if someone asked you about where is  
6 the money?

7 A I would mention again the 25 private banks and  
8 institutions, and they would use either their own custodians  
9 or other custodians just like any other investor, whether  
10 it's UBS or Bear Stearns, or Schwab or HSBC. So the assets  
11 were kind of held at these multiple facilities around the  
12 world.

13 Q And how did you know that that's where the money  
14 was?

15 A I would only have known on parts of tier II by  
16 seeing the statements.

17 Q Okay, as far as the other \$4 million, how did you  
18 know where that money was?

19 A \$4 billion?

20 Q \$4 billion.

21 A I did not.

22 MR. KELTNER: Okay. So I'm going to hand you a  
23 document that I'm marking as Exhibit 7.

24 (SEC Exhibit No. 7 was marked for  
25 identification.)

1 MR. KELTNER: It's entitled SIBL questions from  
2 October 24, 2005, or 10/24/05 Memphis meetings. I know you  
3 had a brief opportunity to flip through these documents  
4 before we started testimony; and, if at any point you want to  
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8 Q Okay. But generally?

9 MR. REECE: Was that the standard practice?

10 THE WITNESS: I did it a lot, but I wouldn't say  
11 standard practice.

12 BY MR. KELTNER:

13 Q Is that how you remember the meetings going when  
14 these training sessions when you were doing the Q and As that  
15 you would sit there live and take information down?

16 A Yes, I mean I'm a big note taker and it would have  
17 been a combination of probably handwritten and typed in.

18 Q But are you fairly confident that the questions are  
19 questions that you put together and the answers came from  
20 Laura?

21 A Yes.

22 Q So for lack of a better way to get through this,  
23 I'm just going to go through it in order and hit a few  
24 questions for you. Item 1 says what oversight you have on  
25 Wade and David's commodity trade portfolio and Mark's equity

1 strategy. Let's start with who are those people? Who are  
2 Wade, David and Mark?

3 A Wade McGee, David Fontenot and Mark Collingsworth  
4 are all three analysts with the Memphis group. David  
5 Fontenot has left the firm and they were managing essentially  
6 a commodity portfolio in-house, trading future contracts on  
7 commodities.

8 Q Okay. And Mark, what was his role? Is it  
9 Collingsworth? Is that right?

10 A Yes, Collingsworth, he had an equity strategy, a  
11 long only equity strategy. Wade and David have a commodity  
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12 trading portfolio. There is a distinction there.  
 13 Q And are these in-house portfolios, or are these  
 14 advisors that are overseeing?  
 15 A My impression Mark's was kind of a prototype  
 16 portfolio, but it wasn't live with actual money. And then  
 17 Wade and David I believe were managing assets.  
 18 Q So I think I saw some later questions, and I'm  
 19 paraphrasing here, but essentially are the advisors in  
 20 Memphis going to be allowed to handle real money down the  
 21 road. So at this point, the advisors are just using -- not  
 22 to be pejorative -- but play money? I mean, they're using a  
 23 synthetic portfolio?  
 24 A I believe Mark Collingsworth's was, but I believe  
 25 Wade and David's was not.

1 Q The commodity portfolio?  
 2 A Right.  
 3 Q So you think at some point in this '05 timeframe  
 4 they're running a commodity portfolio?  
 5 A Right.  
 6 Q Continuing in item number 1, it says they have an  
 7 investment policy in place, weekly holdings reports. They  
 8 have discretion. However, SIO has overriding abilities.  
 9 occasionally, they run by trades before executing. So the  
 10 SIO, that's you?  
 11 A I would read that as the CIO, but I never have any  
 12 discretion.  
 13 Q Because what we're trying to get -- I mean, when we  
 14 get to this, you'll see a recurring theme, but it says the

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19 your recollection was, how things actually worked, and if  
 20 that was actually what investors were told.  
 21 So what kind of internal auditing procedures, and A  
 22 is checks and balances. And it talks about Patricia, Mr.  
 23 Davis, and SIO, to determine cash available, and then Mr.  
 24 Davis approves the wire. Just stopping there first, who is  
 25 Patricia?

1 A Patricia Maldonado is the manager, for lack of a  
 2 better word, over tier I cash. She's essentially the cash  
 3 manager of tier I.  
 4 Q Okay, and is she in Houston?  
 5 A She is in Houston.  
 6 Q Does she work for Stanford Group or who does she  
 7 work for?  
 8 A She works for Stanford Financial.  
 9 Q Stanford Financial Group?  
 10 A I believe she reports directly to Jim Davis, or she  
 11 did.  
 12 Q What does she do? I mean, you can't get in your  
 13 title what she did.  
 14 A Treasury would oversee the cash at the bank, all  
 15 the money coming in, all the money going out, making sure  
 16 that the assets and liabilities were mixed right. There's no  
 17 shortage of cash. Maybe with a bunch of deposits, CDs coming  
 18 due in a month or two, they would kind of keep that balance  
 19 of cash at a bountiful level just to maintain liquidity.  
 20 Q So this cash that comes in, is that largely CD  
 21 investments?

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15 senior investment officer does 'x' and there are also  
 16 references to the chief investment officer doing things.  
 17 What we're trying to figure out is whether you were told to  
 18 tell people that you did these things. And it looks like it  
 19 from the face of the document. So that's what I'm trying to  
 20 get clarified.  
 21 A Hm-hmm. Is there a question?  
 22 Q That's essentially the question. Were you told  
 23 that this would be a role, or were you told that this is what  
 24 you should tell them?  
 25 A It seems looking at this that I was told this would  
 1 be my role.  
 2 Q Okay, so senior investment officer is likely you?  
 3 A Yes.  
 4 Q Okay. And whether what you actually did later is  
 5 different is another issue. But I'm just trying to get, you  
 6 know, when you're taking these notes and the training is  
 7 going on you were told that this would be your role?  
 8 A Yes.  
 9 Q Okay. So at this point you were told that you  
 10 would have overriding abilities most likely?  
 11 A Based on this question, yes.  
 12 Q And you take that to mean that you would have had  
 13 some sort of veto role with regard to trades or positions?  
 14 A Yes. Reading this, that's what I would take.  
 15 Q Skipping down just a little bit to item 5, there's  
 16 a question entitled, "what kind of internal auditing  
 17 procedures are in place?" I guess, let's just get through  
 18 this and let's talk about how this is consistent with what  
 19 Page 22

22 A Zarich\_Michael\_20090204.txt  
 Yes.  
 23 Q Okay. And then they would be the ones that would  
 24 then wrap the money. Where does the money go once the CD  
 25 money comes in?  
 1 A It would be wired, I think at the time there was  
 2 three banks. So the client money would go into, I know, HSBC  
 3 was one of them. Toronto Dominion was another, and I think  
 4 there was a third in the states, but I don't recollect. And  
 5 that's where she would manage at all those banks, manage the  
 6 cash.  
 7 Q Okay. There's a statement in here about the SIO  
 8 determines cash available in conjunction with Davis and  
 9 Patricia? Did you have any role in overseeing the cash in  
 10 tier I?  
 11 A No.  
 12 Q It goes on to say: "Patricia monitors liquidity  
 13 needs and all the work together to monitor cash in tier one.  
 14 Always be aware of tier II, cash 2." So what's the distance  
 15 between tier I cash and tier II cash?  
 16 A In tier II you're going to inevitably have cash if  
 17 you liquidated investments or you're moving cash in there and  
 18 you're waiting to invest the assets. You might have some  
 19 cash to accumulate, so I think you would want to make sure  
 20 you don't have too many cashes. Patricia with tier I doesn't  
 21 necessarily know tier II or 3. So I think what this tells me  
 22 is just make sure we don't have too much cash, that we're  
 23 fully invested.  
 24 Q Okay. In the following sentence there's a  
 25 reference to drawing down 50 million monthly. Do you know  
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1 what that's about?  
 2 A I don't. I'd speculate it's expenses at the bank,  
 3 maybe.  
 4 Q Sure. Let's just skip to item C.  
 5 A I'm sorry. It might be to pay depositors. That's  
 6 what it could be, interest.  
 7 Q Just when CDs become due?  
 8 A Yeah, become due.  
 9 Q Or early redemption?  
 10 A Yes.  
 11 Q In item C, and again we're under the heading  
 12 "Internal Audit Procedures," there's a reference to "monthly  
 13 statements sent to me in Antigua, weekly statements faxed to  
 14 me from SFG Memphis." "Me" is you?  
 15 A Yes.  
 16 Q Okay. So was that the practice? Did you get  
 17 monthly statements and weekly statements from Memphis?  
 18 A I received some monthly statements from the  
 19 custodian firms from the banks that managed the assets, and I  
 20 received a weekly e-mail statement on I believe just tier II  
 21 investments.  
 22 Q Okay. So we had a couple of examples that will  
 23 show you the monthly roll-up with the pie charts and had  
 24 aggregated to 150 million and then had sub tabs for all the  
 25 advisors and spreadsheet. Is that what you're talking about?

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5 guess.  
 6 Q We'll talk a little bit as we hit some of these  
 7 items on internal audit. Who did you interact with from  
 8 internal audit, if anybody?  
 9 A No one.  
 10 Q Because there are references throughout these  
 11 documents to internal audit coming down to Antigua. Did you  
 12 ever see the internal audit in Antigua?  
 13 A Yes, yes.  
 14 Q When and who?  
 15 A Well, I can't remember names. Pretty frequently I  
 16 would say a minimum of quarterly, but I don't remember any  
 17 names.  
 18 Q Were these people based out of Antigua, or do they  
 19 come from Memphis?  
 20 A Houston.  
 21 Q From Houston. Okay, who were they employed by?  
 22 A Stanford Financial came as far as the direct  
 23 report, and I'm not sure.  
 24 Q Okay. I take it they never interviewed you?  
 25 A No.

1 Q They never asked you for any records?  
 2 A No.  
 3 Q So pretty much no interaction with you?  
 4 A Other than socially, no interaction as far as the  
 5 assets or portfolio.  
 6 Q Okay. Who did you interact with?  
 7 A It think probably would be someone in compliance

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 1 That would be referencing the tier II weekly  
 2 e-mail.  
 3 Q Okay. And we only found two of them, I think, in  
 4 the production you had. Did you actually get those on a  
 5 weekly basis or just from time to time?  
 6 A Weekly.  
 7 Q And then what about the monthly statements? You  
 8 said you got some of them. I mean, I think when we talked  
 9 with you before you made some reference to, you know,  
 10 statements being misfiled or stuck in the wrong in-box and  
 11 finding their way to you down in Antigua. Was there a  
 12 systematic protocol for you to get every statement from every  
 13 supervisor in tier II?  
 14 A There was not a system in place. I'm not sure what  
 15 I said before. Some came to my desk and I found a way, but  
 16 clearly not all of them.  
 17 Q I mean ball park it for me. Were you getting a  
 18 significant piece of portfolio or just a few random  
 19 statements here and there?  
 20 A A very minute part of the portfolio.  
 21 Q Okay, and for the minute part of tier III?  
 22 A Yes, yes.  
 23 Q And you never got any statements on tier III?  
 24 A I don't believe so.  
 25 Q In item D there's a reference to Edmundo audits

1 David, Wade and Mark's trades annually. Who's Edmundo?  
 2 A I do not know.  
 3 Q Does the name mean anything to you?  
 4 A I would guess an internal auditor if I had to  
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 8 and operations. A typical audit visit is they're hold up in  
 9 a conference room, doors closed.  
 10 Q But they never spoke to you, the senior investment  
 11 officer?  
 12 A Correct, they did not.  
 13 Q There's a reference in 'F' to FSRC doing spot  
 14 checks. What's that reference?  
 15 A It would read in addition to their quarterly  
 16 visits, but I do not see any spot checks. I'm sorry, annual  
 17 visits, not "quarterly."  
 18 Q So the FSRC, that's the Antiguan bank regulator?  
 19 A Oh, yes, Financial Services Regulatory Commission.  
 20 Q And you'd see them on annual visits?  
 21 A Yes.  
 22 Q But never just spur of the moment spot checks, any  
 23 thing like that?  
 24 A Correct.  
 25 Q We'll get into more detail on that a little bit.

1 In item 5G it says "Checking balance between Fred and each  
 2 analyst as well as Zack run in parallel figures." First, who  
 3 are Fred and Zack?  
 4 A Fred Pomleedin and Zack Davis.  
 5 Q Zack, who is his father?  
 6 A Jim Davis.  
 7 Q Explain that to me. What does that mean, "checking  
 8 balance between Fred?  
 9 A You referenced the spreadsheet with all the tabs.  
 10 He would put it together. He would get an individual tab or  
 11 individual port from the various analysts and put it into the  
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12 macro report and e-mail it to me. He e-mailed the weekly
13 report.
14 Q How do you know Fred did that? Did you talk to him
15 about it?
16 A I got the e-mail and we did speak.
17 Q So you know that Fred was the one that prepared
18 those spreadsheets?
19 A Yes.
20 Q And what's the reference to Zack running parallel
21 figures?
22 A I believe he is running also your same kind of
23 year-term roll-up, probably for a checking balance. But I
24 did not receive. Maybe it was a backup or something, but I
25 did not receive e-mails that I know of from Zack Davis.

1 Q So the idea may not be in the basically Fred and
2 Zack are preparing the same data, and just set them side by
3 side and made sure that they could?
4 A That's how I would view it.
5 BY MR. KING:
6 Q Item 5G on Exhibit 7 would be a checking balance
7 from tier II?
8 A What I received from them was only tier II.
9 Q So you don't know whether this item 5G, whether
10 that checking balance was ever applied to tier III?
11 A Correct. I don't know.
12 BY MR. KELTNER:
13 Q So does item 5 represent what you were told to tell
14 investors by Laura?

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19 go from bank to bank to bank, you know, custodian. And with
20 a very large suitcase to actually take the money.
21 Q Okay. If you can see I'm struggling with all the
22 safeguards and procedures that he referenced, they would all
23 apply to tier II, right?
24 A Yes.
25 Q Okay, and as far as you know, you know nothing

1 about the safeguards surrounding tier III, right?
2 A Right.
3 Q Okay. I guess here's what I'm struggling with. An
4 investor, when they ask you the question, they're not asking
5 what safeguards are there for 20 percent of my money, are
6 they?
7 A Right.
8 Q Okay. So as I understand it, when they ask that
9 question, it's a little misleading. I mean are investors
10 going to assume that those safeguards apply to all money?
11 A It was my belief that the money in tier III,
12 although may not have had these eyes on it, was still
13 invested with some of these same banks located around the
14 world. So to answer your question, it was just belief and
15 trust.
16 MR. KING: Did you ever tell a potential investor
17 that the analysts didn't know what money was in tier III?
18 THE WITNESS: No.
19 BY MR. KELTNER:
20 Q Yeah, so I guess that's kind of the overriding
21 question is investors may ask you the general question what

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15 A Yes and no. I think this would not be a polished
16 answer to a potential investor. As we talked of it, again, I
17 think this is kind of for my own edification entering into
18 this process.
19 Q Okay. We talked earlier about, you know, investors
20 asking where the money is and how the returns are gained, and
21 pretty much every single one asking you where the money is
22 invested. Presumably, some of them also asked about controls
23 and safeguards. So what were the told if they asked a
24 question like this?
25 A I would talk about how many analysts are looking

1 over the portfolio. You have 20 plus analysts in Memphis.
2 Each analyst is in a sense segregated with their own piece of
3 the portfolio that they monitor. It's monitored daily. You
4 have checks and balances. You have, you know, globally
5 diversified array of money managers, different custodians.
6 The money is virtually very spread out. So that was another
7 typical question. Could Allen Stanford run off with the
8 money.
9 A Yeah, I think we saw that one. It was somewhat
10 entertaining.
11 Q Oh, was it? So, I mean a typical question was
12 could Allen Stanford run off with my money?
13 A Right, and the answer would be it would be
14 extremely difficult. There's no money at the bank. In fact
15 that was one of the jokes of the tour, when whoever did the
16 tour, took the clients on the tour of the bank, there
17 actually is a safe, but it's a safe that had petty cash in
18 it. The money's invested across the globe, so he'd have to
19 Page 30

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22 safeguards are there, and your response is in part there's
23 this team of global analysts. Each one of them manages an
24 investment advisor. That's part of the answer.
25 A That's the monetary part of the answer. The
1 reality is where the money is it's diversified and held.
2 Q Sure. But the reality is what 75, 80 percent of
3 the money the analysts never see, right?
4 A As far as I knew they did not.
5 Q Okay. And so was that communicated to your
6 investors? Were investors told we've got all these
7 safeguards in place. We've got all these analysts that look
8 at the money, but they only look at 10 percent of it or 20
9 percent of it?
10 A I did not. I would not tell an investor that.
11 BY MR. KING:
12 Q Why not?
13 A You know, that was partly because it was
14 proprietary. I was trained not to divulge too much
15 information, but it just wouldn't leave an investor with a
16 lot of confidence.
17 Q Who have you a trained to do that?
18 A Laura Pendergest.
19 BY MR. KELTNER:
20 Q Tell us about it a little bit. Item 6, has there
21 ever been an outside audit on the following page in item 6,
22 CAS Hewlitt & Company. We talked to you a little bit in our
23 interview about CAS Hewlitt. Have you ever met anyone from
24 the firm?
25 A I have not.
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1 Q Okay. You were down in Antigua for what, a year  
2 and a half, two years, year and a half?  
3 A Yes, year and a half.  
4 Q Okay. Did you ever see anyone from CAS Hewlitt?  
5 A I did not.  
6 Q Were you ever given a copy of the audit?  
7 A I don't believe so.  
8 Q Sitting here today and aside from the audit letter  
9 and the financial statements, can you say one way or the  
10 other whether or not it was conducted while you were there?  
11 A I couldn't say.  
12 Q What were you told about CAS Hewlitt?  
13 A I recollect he or they had a longstanding  
14 relationship with Allen Stanford, or maybe even his father.  
15 They were one of the few auditors that we'd kind of take them  
16 on early on in the bank. And there was, you know, just a  
17 trusted relationship there. And the question would often  
18 come up. Why not a big name auditor?  
19 A Right.  
20 Q And what's the answer to that question?  
21 A I've heard answers they wouldn't even give Stanford  
22 the time of day 20, 25 years ago, and these were the guys  
23 they trusted and done this since, I think, the beginning.  
24 Q Did that ever make it hard to sell the CDs to the  
25 best you would ever push back and say, you know, I'd feel a

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5 probably speak to that better, Juan Rodriguez.  
6 Q Sure. What kind of answer would you or Juan give?  
7 A Oh, I may have used it, you know, that such and  
8 such audited Enron. Did that do you any good? You know,  
9 stuff like that.  
10 Q So basically a big name audit firm is not a  
11 guarantee, that kind of thing?  
12 A Yes.  
13 Q When you were down in Antigua -- it's a more  
14 general question -- do you know of any other clients that CAS  
15 Hewlitt has?  
16 A I do not.  
17 Q Never had a list of references or anything like  
18 that?  
19 A I don't recollect seeing any references.  
20 Q Okay. Moving forward to item 8, it says: "How is  
21 leverage calculated on the overall portfolio? Most  
22 leveraging done in tier III, margin against existing  
23 securities, hedge funds that leverage is also included. Most  
24 leveraged capital used to purchase alternative funds and  
25 about LIBOR plus an 8." Okay. So let's talk about that

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1 first one. What did you know about the leverage in tier III?  
2 A That that's trigger something. I recollect that  
3 tier III held a fair amount of fixed-income type securities,  
4 presumably investment grade. So if you were going to lever a  
5 piece of the portfolio, as this concurs, you would lever off  
6 the safer investment. Take the leverage. Take the margin,  
7 if you will, and buy into other assets to enhance your

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1 lot better about this at Price Waterhouse, or you know, pick  
2 your big four firm?  
3 A I can't say my role at the bank was such as last  
4 kind of closer role with a CD. I would imagine selling the  
5 CD product was probably difficult, depending on the financial  
6 advisor's relationships and scale.  
7 Q Did you get that question when folks came down to  
8 Antigua or otherwise?  
9 A Yes.  
10 Q Okay, and when clients asked a question, I know  
11 you'd give the relationship story, but when they really  
12 drilled down, did you have anything else you could tell them?  
13 A You know, you would talk, and Juan maybe answered  
14 the question. I maybe answered the question. The board of  
15 directors has talked about maybe getting another auditing  
16 firm in here but realized Mr. and Mrs. client, this is going  
17 to be expensive. It's going to erode some of the yields,  
18 though the yields won't be as competitive with these things.  
19 Q So, was part of the answer CAS Hewlitt cheaper than  
20 a big name audit firm?  
21 A I would say a big part of the answer was getting a  
22 big audit firm's expensive.  
23 Q And the other side of the question being that  
24 Hewlitt is less expensive?  
25 A Oh, I think to the client, do you want a lower

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1 yield. I think you put it to the client, which would you  
2 rather have -- 75 basis points less yield -- and also, you  
3 know, I know you could probably ad nauseam about do you even  
4 trust the auditing firm. You know, I think Juan could

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8 return.  
9 Q So your recollection is that tier III included, I  
10 guess, more safe, secure, fixed-income assets that were then  
11 levered to invest in alternative investments?  
12 A Or, certainly, a larger percentage, just given the  
13 size of tier III.  
14 Q So what do you know about the leverage in tier III?  
15 I guess that was just part of the strategy to lever up the  
16 alternative piece?  
17 A Alternative investments would be levered from other  
18 safer securities. I believe there was the investment policy  
19 had a cap on that, maybe 30 percent.  
20 BY MR. KING:  
21 Q Did you ever discuss with any potential investor  
22 the fact that certain tier III assets would be leveraged?  
23 A I would never use the term tier III, but I did  
24 discuss leverage, which is the same concept how leverage is  
25 used in the portfolio, and now what parameters it's limited

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1 at.  
2 Q Just so I make sure I got it, what did you tell  
3 them?  
4 A I would tell them that the safer, fixed-income type  
5 desk securities would be used for leverage to create margin  
6 to buy alternative investments.  
7 BY MR. KELTNER:  
8 Q Okay. You know, I want to sort of get through some  
9 of this just quickly as we can, so just go to item 9 on page  
10 2 of Exhibit 7, talking to advisors. Item 9, first, that  
11 reference to advisors, that's the global network of 24, 25

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12 advisors. Is that correct?  
 13 A No, financial advisors; well, let me read it.  
 14 Q Okay.  
 15 A Yes, yes.  
 16 Q So that's a reference to these international money  
 17 managers?  
 18 A Yes.  
 19 Q So SIO is a relationship manager. So that's you,  
 20 right?  
 21 A Yes.  
 22 Q This says, "On View is the global macro, top down  
 23 expert. SFG analyst does all the day-to-day analysis and  
 24 weekly/monthly reports. Call when I have something specific  
 25 to discuss until relationship forms. They should come to us

1 at least once a year and I will go there about twice a year.  
 2 I think when we talked to you before, you said you met a  
 3 handful of the analysts on trips, or the advisors when you  
 4 went over to Europe. Is that true?  
 5 A Yes.  
 6 Q So this idea that each of the advisors would come  
 7 to you at least once a year, did that happen?  
 8 A It happened not once a year, but they did have  
 9 their own due diligence requirements from their firm, so  
 10 there were some visits to the bank.  
 11 Q So, systematically, did every advisor come visit  
 12 you?  
 13 A No.  
 14 Q So ballpark it for me.

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19 on the agenda?  
 20 A When I originally went I was still in the capacity  
 21 of the investment advisor group, the managing director of the  
 22 investment advisory group. It was my belief that Jim Davis  
 23 wanted me to go to kind of see the process, you know, kind of  
 24 feel the story, understand. Who knows? Maybe he was seeing  
 25 me as SIO down the road, but also kind of get a picture of

1 the global network of Stanford Financial.  
 2 In those meetings, very superficial. I would  
 3 actually leave when the portfolio discussions would start.  
 4 Statements would come out. I would leave the conference  
 5 room.  
 6 Q Why is that?  
 7 A Because I wasn't in a senior investment officer  
 8 capacity and it was still viewed as proprietary information.  
 9 Q So you were pressed to leave?  
 10 A Probably.  
 11 Q So who was at this meeting? You, Laura Pendergest,  
 12 and Jim Davis?  
 13 A Yeah, it depends. Each trip was different. I  
 14 think the first couple was Laura, Jim and I, but he would go  
 15 visit other managers; and, sometimes, I would be with Laura.  
 16 And like I said we would have an hour meeting, maybe talking  
 17 about what we were doing in the states, the IRA, what they're  
 18 doing. Maybe there are some synergies there. And then it's  
 19 like, okay, well let's do our annual portfolio or view and  
 20 then I would step out.  
 21 BY MR. KING:

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15 A I believe there were two firms.  
 16 Q Okay, so two firms.  
 17 A And I think they were required to come annually.  
 18 Q Okay. So those two firms came in and did their own  
 19 for their own purposes?  
 20 A Yes.  
 21 Q So the other 22 or 23 advisors didn't actually come  
 22 to visit?  
 23 A I don't recollect they did come in.  
 24 Q Okay, and ballpark it for me, I mean, as a  
 25 reference to you going to visit the advisors twice a year.

1 A I did not go see them after I became CIO. I had  
 2 visited them the previous year four times, ballpark.  
 3 Q Okay.  
 4 A And not all 25 of them, let's say, four times as in  
 5 four trips to Europe seeing maybe six, seven.  
 6 Q And when you went back was it the same six or  
 7 seven, or did you stick through all 24?  
 8 A Same.  
 9 Q So, again, when you went over and visited you met a  
 10 core group of six or seven advisors, but never met the other  
 11 18?  
 12 A Yes.  
 13 Q And so this idea that you would go to them at least  
 14 twice a year didn't happen?  
 15 A Did not happen.  
 16 BY MR. KING:  
 17 Q When you talked to those, I guess, with what we  
 18 were calling analyst portfolio managers in Europe, what was  
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22 Q And that happened with each of these meetings that  
 23 you went to, essentially?  
 24 A Yes, essentially.  
 25 Q And you said you went four times, and each time met  
 1 with, what, five or six advisors?  
 2 A Yes.  
 3 Q And typically the same five or six?  
 4 A Yes.  
 5 Q Okay. And was that pretty much universal whenever  
 6 it came time to talk about the money and the financial  
 7 statements, you were asked to leave?  
 8 A Yes, and it wasn't -- I mean -- some of the  
 9 meetings, we might just have dinner. I mean it always  
 10 varied, but I was not in any meetings when the portfolio was  
 11 discussed.  
 12 Q Again, just trying to work through this document  
 13 pretty quickly, skipping on to 18, page 4 of Exhibit 7:  
 14 "Who's responsible for monitoring overlap of the security and  
 15 fund level? SIO. Each advisor may have their own exposure  
 16 to Asia, merging markets, Eastern Europe, et cetera. There  
 17 are no limits to individual positions; however, portfolio  
 18 does have to be diversified across all countries, sectors,  
 19 regions, commodities, et cetera." So the senior investment  
 20 officer, that's you, right?  
 21 A Yes.  
 22 Q So this idea that you played a role in making sure  
 23 that there was no, I guess, overlap at the security level.  
 24 First, the overlap, is that talking about different advisors  
 25 being invested in the same thing, so you're less diversified  
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