From: Satish Ramakrishna <satish.ramakrishna@db.com>
To: Bill Broeksmit <bill.broeksmit@db.com>
cn=bill broeksmit/ou=db/o=dbcom@dbamericas
Date: Aug 25 2009 06:44:45
Subject: Re: RenTech MAPS

Bill - couple of clarifications
- deleveraging is smooth, not only "if half the capital is depleted" - it starts from 100.
A
- RoA when I looked at it last was closer to 110 bps. I will check and let you know.

Best Regards,
Satish Ramakrishna
Deutsche Bank AG, London
Global Markets Equity
Global Prime Finance Risk & Complex Prime Finance
1342, 60 Wall Street, New York
+ 1 212 250 4928 New York
[redacted]
+ 1. 212 250 4051 Asst: Magdalena Pisarczyk

= Redacted by the Permanent Subcommittee on Investigations

----- Original Message -----
From: Bill Broeksmit
Sent: 08/25/2009 10:47 AM GDT
To: Anshu Jain
Cc: Satish Ramakrishna; Jonathan Hitchon; Barry Bausano
Subject: RenTech MAPS
The Renaissance synthetic, non-recourse PB facility (MAPS) tends to use around $15 billion of BS and produces ROA in area of 80 bps. Current facility is up for renewal in early 2010. We think we and one other PB (Barclays or CS, don't know their size) are only providers MAPS to client. AUM in relevant fund (Medallion) is almost all partners' wealth and friends and family. This is the fund with the legendary track record (35% average annual returns over past 20Y). (Somewhat puzzlingly, the Renaissance fund open to outside investors (RIEF, a 175/75 S+P plus style) has badly underperformed S+P this year and AUM is down from $25 billion to less tha $10 billion).

Following is a more detailed description of the MAPS facility:

The Renaissance MAPS trade is a synthetic, non-recourse PB-inspired facility. We carry the equity longs and shorts, as directed by Renaissance, on our BS and pass the performance of portfolio to Renaissance via swap. Equity longs we carry on behalf of Renaissance show up as trading assets for DB and shorts appear as securities borrowed (asset) and securities sold but not yet purchased (liability).

This trade format is much less BS efficient than a traditional PB account because in a PB account I can net receivables and payables with same customer. So if an equity long/short account has equal amount of longs (financed by us) and shorts (borrowed from us versus posting of cash collateral), PB receivable wrt that account nets to zero.

Renaissance trade is only different from a straight synthetic PB facility in that it is non-recourse. Facility allows client maximum of 18X NAV in gross value of longs plus shorts, or a 9X9 long versus short portfolio. Diversification requirements and other sub-limits are tighter than more

Permanent Subcommittee on Investigations
EXHIBIT #26

traditional equity long/short PB facilities - EM exposures are restricted, as are illiquid and concentrated positions. If client started the day with maximum leverage (it has never done so), longs would have to underperform shorts by 11% to burn through capital and put us into non-recourse loss territory. We have triggers in place that allow us to sieze control of the portfolio at any point during the day if half of the capital is depleted (ie, 5.5% long underperformance of shorts). Biggest risk is an August 2007 event when equity long/short trades got too crowded and there was a sudden shake-out - they were then running at 12x leverage and they delevered immediately.. Since
they stagger their individual MAPS trades, if one option ran into trouble, they could redistribute the long/short portfolio into the other (deeper-in-the-money and hopefully less levered) options.

This structure (long option on underlying portfolio) is a capital asset if held by the partners for more than one year. Size of portfolio tends to be between $8 and 12 billion long and same amount of short. Maximum allowed usage is $16 billion X $16 billion, though this has never been approached.

Pricing is: we lend to finance longs at FF+37.5 bps and borrow cash pledged against securities borrowed at FF-37.5 bps. Most of the money is actually made by lending them specials that we have on inventory and they pay far above the regular rates for that. In addition, their positions help us internalize other clients' exposures, so it helps reduce financing cost across the platform.

Bill Broeksmit
Office: +44 (0)20 7545 7899
[redacted]
US Mobile: +1 917 301 3003