

LTCMSM

The financial technology company

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$$= e^{(d)N(t)} L$$
$$= e^{(d)(t)} L$$
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in the changing financial environment



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The Innovative Financial Technology Company

Long-Term Capital Management, L.P. (LTCM)sm is a financial technology firm whose primary mission is managing the assets and liabilities of Long-Term Capital Portfolio, L.P. (LTCP).

Combining sophisticated technology with creativity, we

- Identify and quantify investment opportunities,
- Trade and design financial structures, and
- Work with co-ventures on financial alternatives.

As our name suggests, LTCM's focus is on long-term strategies and opportunities.

The company was formed in 1993 and in 1994 sponsored LTCP, one of the largest startup funds ever. We have experienced significant growth and produced high returns on low levels of risk. While past performance is no guarantee of future results, our goal is to continue to produce these attractive results for our investors. LTCM currently has assets that exceed \$120 billion with equity around \$5 billion, in line with a large financial institution. Application of our financial technology has been expanded to the fixed-income and equity markets around the world and we have become a respected counterpart in international markets.

LTCM's founders and associates have developed a dynamic, youthful organization that is creating new paradigms in many arenas. Oriented to creativity, our difference, and the underlying basis of LTCM's success, is that we have formulated new industry templates in four critical areas:

- Strategy
- People
- Structure
- Culture

Strategy: The Crossroads of Theory and Practice

The philosophy of LTCM is basic: Use a firm foundation of financial principles to analyze investment opportunities and challenges and find the highest rewards at a targeted level of risk by integrating the research with market know-how. We do this by

- Uniquely integrating computer technology and mathematical models with financial theory, business experience and trading acumen, and market information flows and by,
- Capitalizing on financial research of the last 30 years.



Our strategy is to:

1. Generate profits by concentrating in leveraged fixed-income and special equity investments around the world with expected abnormal returns (after incorporating specific details and costs of operating in particular markets into the analysis) and
2. Maintain an appropriate level of risk by measuring and determining which factor risks to hedge in the efficient management of assets and liabilities.

LTCM's experts start with an academic research framework and quantitative orientation to build and refine models and to put concepts into practice on a large scale. Unlike most other firms, we employ a team approach.

Each member of the team, whether a researcher or a trader, is called a "*strategist*", who works to husband a strategy from inception to fruition. In this unconventional manner, research and trading skills are blended together, not only to build rich and robust models developed from cutting edge theories, but also to apply them to actual strategies.

This creative method of using the researcher and the trader to execute theory has yielded LTCM great financial success. Our strategists skillfully conceptualize and deal with a dynamic, global environment and identify opportunities around the world using the state-of-the-art information and resources available in the computer era.

People: The World's Best Finance Faculty

What distinguishes LTCM is our remarkable talent. The quality, background and recognition of our employees is top notch. Our various strategy teams are comprised of a unique combination of specialists in trading, economics, mathematics, and computer science. They include individuals who were the major contributors to the world of finance in the last 25 years and directly involved in the development and application of many of the strategies and products traded in the market today.

The academic and professional backgrounds of LTCM's Principals and other strategists include faculty positions at major universities, two Nobel Laureates, and service in government, including a former Vice Chairman of the Federal Reserve Board. This distinguished group, many of whom have advanced degrees, have worked together for many years and have considerable experience in the design and implementation of large-scale trading and financial technology.





The Principals of LTCM were the pioneers of computer-assisted bond trading. Led by Chairman John Meriwether, they developed the renowned department at Salomon Brothers, where the art and science of fixed-income trading was redefined in the 1980s. Over the last several years, many others have grown to prominent positions at LTCM. Now with their years of experience in large-scale management and control of all financial instruments, they are key contributors to the creative identification of opportunities and the ultimate performance of the organization.

We understand finance, we understand the design of products and we understand the ins and outs of institutions. We are the ones who created the models - and we have used them on a grand scale. And with our outstanding academic credentials, LTCM is considered to have one of the best finance departments in the world.

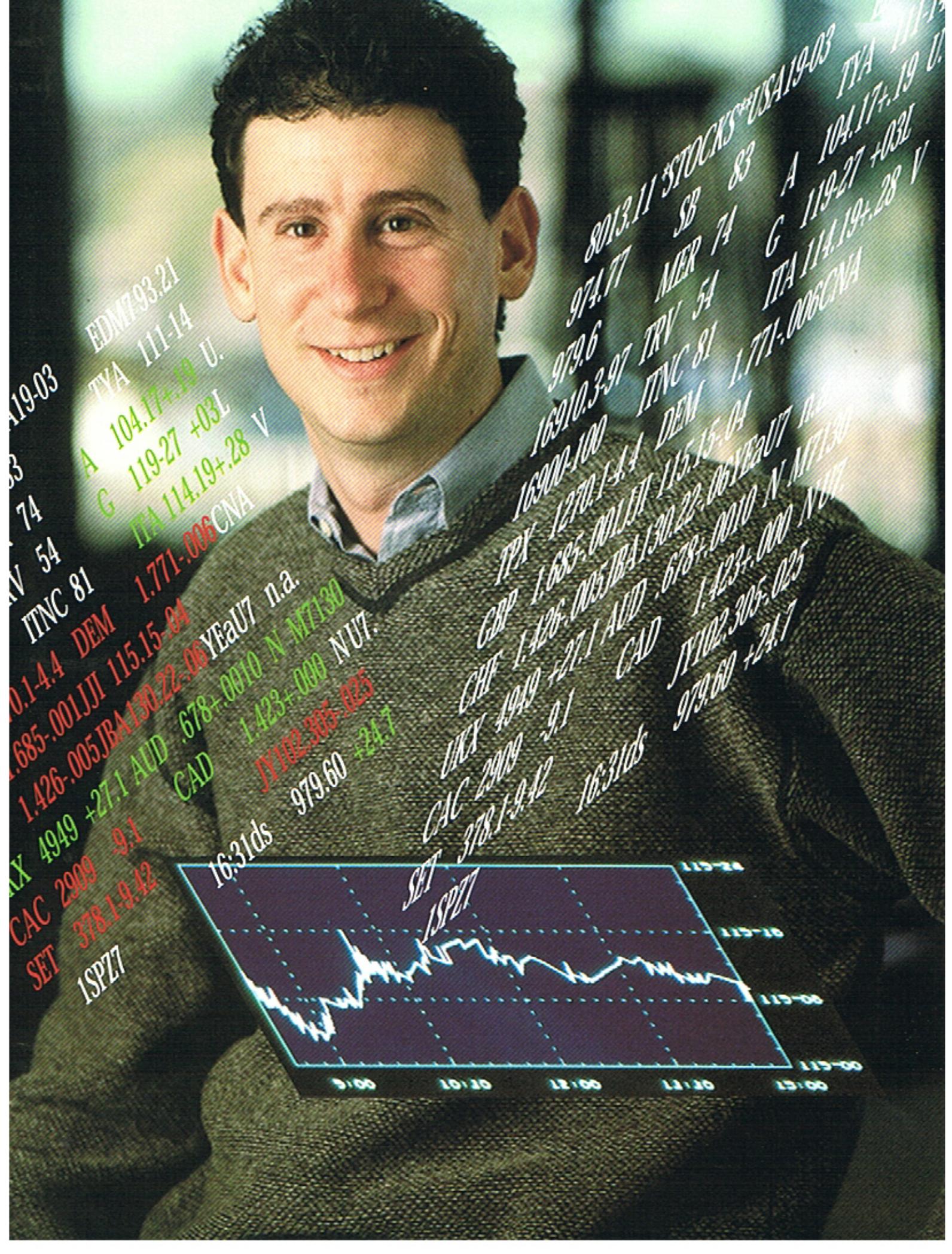
Structure: Small and Fast

LTCM's staff of 150 skilled people provides exceptional speed, flexibility and maneuverability in responding to creative opportunities. By the size of assets under management, we are as large as many financial institutions but strive to remain unencumbered with hierarchical layers and cumbersome procedures.

In creating a new enterprise, the founders capitalized on the best parts of existing businesses, designing an organization that could define a model for the industry. The company's structure is flat. All strategists combine the disciplines of research and trading and these functions are seamlessly integrated. There are few titles, all trades are approved by one committee, and global asset allocation and risk management are centrally controlled by a portfolio management committee.

Compensation for all employees is significantly performance-based, with pay linked to both individual and company-wide performance. Employee investment in the Fund, which is voluntary, further correlates income with performance.

LTCM's 16 Principals are the sole owners of the company. They are directly involved in the key areas of trading, research, systems, financing, and back office. The Principals have a substantial investment in the Fund which gives them an extra incentive to focus and keep a close watch on not only the opportunities and their risk but also on the growth and development of the employees of the firm.



LTCM has offices in Greenwich, Connecticut, London and Tokyo. Close communication is maintained between all facilities and our flexibility allows us to shift personnel between locations as needed. Each office is staffed by people from all over the world, including nationals, so that we can understand local markets in depth and take advantage of opportunities for special investment situations.

LTCM's support and computer facilities are state-of-the-art. We continually refine and expand the technology permitting us to not only stay competitive but also to lead in taking advantage of opportunities in new markets or new instruments.

Culture: Intersection of Wall Street and the Ivory Tower

LTCM is infused with the relaxed, creative, inquisitive spirit of the academic research world. The atmosphere is informal, casual, hands-on, and flexible.

We are a meritocracy, where there is a sense of a single, integrated operation. Everyone intermingles and Principals work on the trading desks with a "Let's get things done" mind set. Our primary concern is with good ideas and their effective implementation. Although each employee has a specific focus, he or she can take initiatives to enhance value in adjacent areas of responsibility.

Through the training and growth of all staff members, we are committed to building our most important asset, our human capital. We prefer to grow our own talent. Internal seminars, led by the company's many former academics, are frequent events fostering the creative environment that is the basis of our success. We are also constantly engaged in developing new trading strategies and models to continue our heritage of industry leadership.



Career Opportunities with LTCM

LTCM offers outstanding career options for select, qualified people. We seek well-trained, creative individuals with the ambition and skills to move into new challenges. The distinctive people we look for

- Possess a strong curiosity,
- Want to be challenged,
- Think about problems in a new way,
- Want to work in a structured but flexible environment,
- Find building solutions exciting, and
- Enjoy what they are doing.

In addition, they have a strong analytical background, finance, math or computer science training, and are fluent in computer usage.

The LTCM environment provides a unique opportunity to work with and learn from the creators and developers of modern proprietary financial technology. Collectively, LTCM represents one of the best teams in this business. Our staff gains excellent training and broad exposure: we trade in markets around the globe, we design and build proprietary models, we use financial theory and knowledge, and we identify and analyze new products.

People who join the LTCM team are expected to contribute in a small way immediately and grow, over time, implementing their ideas and creations on a large and meaningful scale. The growth path through the organization is simple because it is driven by each employee's ideas and output. It is not hierarchical as in many large companies. Ideas are looked at, discussed, implemented and presented at research seminars open to all company members. Staff members are not limited to developing their expertise in one area; they are encouraged to expand and grow into new areas.

LTCM is an exciting place to work. We believe that it is the best place for bright, energetic and budding strategists: we provide an opportunity to learn from an outstanding group of fellow strategists and to profit handsomely with contribution to the success of the firm.

LTCM is an Equal Opportunity Employer.

Long Term
Capital Management,
John Meriwether

NOBEL MEMORIAL economists' bittersweet winning formula

Here's the formula for figuring the value of a call option on a share of stock. A call option is the right to buy stock at a specific price before a certain date. It gives the buyer the possibility of profiting from movement in the stock price for the cost of the option — a lot less than it would cost to buy the stock.

$$C = S N(d) - Le^{-rt} N(d - \sigma \sqrt{t})$$

In the formula:
S = the value of the option
C = the price today
r = the risk-free interest rate
t = the time to maturity
 σ = the standard deviation of the stock price

theory

There was a touch of sadness to the thrill Robert Merton and Myron Scholes enjoyed yesterday after learning they ... both

trader instincts: "John is a born risk-taker," recalls wanting in late 1978 to cut Salomon's arbitrage. Meriwether, however, by now trading the downdraft in prices was coming by a handful of floor traders. The cash-futures position unwound

telltale sign of shifting power. "The cash shit, but there was nothing really they understand that Meriwether's boys were less risk," says a former Salomon executive. Capital was allocated to Meriwether's limited to the 1987, e