

MEMORANDUM

To: Executive Management, Risk Management, and Board of Directors

From: Sarah Chen, Compliance Officer

Subject: Technical Analysis of Investment Fraud in Meridian Opportunities Fund

Date: March 10, 2022

Confidentiality Level: Confidential

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Summary:

This memo provides a technical analysis of the investment fraud in Meridian Opportunities Fund (MOF), highlighting the financial instruments used, suspicious transaction patterns, and risk exposure. Our investigation reveals a sophisticated layering scheme involving fabricated security structures, inflated valuations, and misappropriation of client funds.

Technical Analysis:

1. **Mark-to-model valuation:** Our analysis indicates that Thorne's investment team employed a mark-to-model valuation methodology to overstate the value of illiquid assets in MOF. This approach created an artificial demand for these assets, allowing the team to conceal the true extent of the fraud.
2. **Synthetic collateralization:** The investigation reveals that the investment team created synthetic collateralization structures to disguise the true nature of the assets held in MOF. These structures were designed to appear as legitimate investments while concealing the fact that they were, in reality, unsecured and worthless.
3. **Layering schemes:** Our analysis demonstrates that the investment team employed a complex layering scheme to conceal the flow of funds. This scheme involved multiple transactions, each with a seemingly legitimate purpose, but ultimately leading to the misappropriation of client funds.
4. **Risk exposure:** The MOF investment strategy exposed Veridian Bank to significant risk, including:
 - **Operational risk:** The complexity of the layering scheme and the use of synthetic collateralization structures increased the operational risk associated with the investment.
 - **Market risk:** The overvaluation of illiquid assets and the misappropriation of client funds created market risk, as the true value of the assets was not reflected in the market.

- **Credit risk:** The use of unsecured and worthless assets as collateral increased the credit risk associated with the investment.

Measurements and Metrics:

1. **Risk Assessment Score (RAS):** Our analysis indicates that the RAS for the MOF investment strategy was consistently above 85, indicating a high level of risk.
2. **Operational Risk Index (ORI):** The ORI for the MOF investment strategy was consistently above 70, indicating a high level of operational risk.
3. **Compliance Risk Rating (CRR):** The CRR for the MOF investment strategy