

MEMORANDUM

To: Arthur Sterling, CEO Office

From: Evelyn Reed, Head of Risk Management

Date: 2022-04-15 (Draft for public disclosure)

Subject: Urgent: Unsettling Patterns in Meridian Opportunities Fund

Confidentiality Level: Public Disclosure (Draft)

As Head of Risk Management, I have been monitoring the Meridian Opportunities Fund since the Early Warning Period. Recent developments warrant immediate attention and require your direct intervention. This memo outlines concerns and proposes next steps to mitigate potential losses.

Key Findings:

1. **Inconsistent Valuations:** Our analysis reveals discrepancies in asset valuations across multiple portfolios. Thorne's Investment team has been using an unapproved, proprietary model to estimate returns. This method lacks transparency and appears to be overstating performance.
2. **Lack of Diversification:** The fund's exposure to high-risk assets, such as Cascade Technology Portfolio, is higher than recommended. This concentration increases the likelihood of significant losses.
3. **Unusual Transaction Patterns:** Internal monitoring indicates that certain trades are being executed outside of normal hours or without prior approval. These transactions often involve large sums and exhibit unusual characteristics, such as simultaneous buy and sell orders.

Possible Causes and Implications:

1. **Investment Fraud:** The unapproved valuation model, lack of diversification, and unusual transaction patterns collectively suggest a high risk of investment fraud. If confirmed, this would have severe consequences for Veridian Bank's reputation and capital base.
2. **Systemic Risk:** The Meridian Opportunities Fund's problems may be indicative of a broader issue within Veridian's investment management practices. This could lead to a systemic risk that affects multiple funds and client portfolios.

Recommendations:

1. **Immediate Review:** Request an immediate review of the Meridian Opportunities Fund's valuation model, transaction history, and asset allocation. This review should be conducted by a team independent of the Investment Department.

2. **Risk Assessment Update:** Update the Enterprise Risk Matrix (ERM) to reflect the high risk associated with the Meridian Opportunities Fund. This will ensure that senior management and the Board are aware of the potential consequences.
3. **Investigation and Enforcement:** Launch a thorough investigation into the Investment Department's activities, focusing on the use of the unapproved valuation model and any potential wrongdoing. Take swift action to address any issues and hold those responsible accountable.

Next Steps:

I will provide a detailed report on the investigation's findings and recommendations within the next 48 hours. In the meantime, I recommend that you:

1. **Freeze the Meridian Opportunities Fund:** Temporarily suspend any new investments or withdrawals to prevent further losses.
2. **Notify the Board:** Inform the Board of Directors about the potential investment fraud and the actions being taken to address the issue.

Conclusion:

The Meridian Opportunities Fund's problems require immediate attention and action. I urge you to take the necessary steps to prevent further losses and ensure that Veridian Bank's reputation and capital base are protected.

Appendix:

- Exhibit A: Unusual Transaction Patterns
- Exhibit B: Valuation Model Comparison
- Exhibit C: Risk Assessment Update Template

Please acknowledge receipt of this memo and confirm your understanding of the recommended actions.

cc: Risk Management Team, Compliance Department, Internal Audit Team

Note: This memo is intended for internal distribution only. It is not to be shared with external parties without proper clearance.