
From: David Stern [REDACTED]
Sent: Friday, January 18, 2019 6:12 AM
To: Jeffrey Epstein
Subject: Bond Fund

Can you check if this is of interest to Rothschild?

Discussing it now with Pictet and Julius Baer.

I can start this with US\$ 50m (ICM, Taiwan family) and feel confident other families will follow us quickly.

Thanks
David

The problem

- Large family offices are increasingly managing their own wealth.
- Chinese family office wealth is largely first generational.
- Do not trust outside parties much and want direct control of their assets
- Do not understand that institutionalized asset management cannot turn on a dime and move in and out.
- Do not like funds because assets locked up, no visibility, and no real control once funds have been deployed.
- Do not like paying fees.
- Want steady return through bonds but do not want to give up flexibility, control and transparency.

The solution

- Create a bond fund at Rothschild that large family offices could assign fund managers specific for their pool of capital.
- Rothschild would get the fund managers along with the client to make sure they are up to par.
- Family office would get the benefit of Rothschild funding, trading platform and bond access.
- Family office would have visibility into the bonds and some control on fund manager.
- As the bond fund would be essentially a Rothschild product under Rothschild risk guidelines and management, should be leveragable. This is important because it means the cash isn't stuck and can be leveraged against as the family office needs and thus preserves flexibility. This isn't super different from existing bond funds which are also leveragable. The key difference is that the fund manager is assigned over by family office and the transparency, mandate, risk level is clear to the family office. Basically, incentive of family office is more aligned.
- As this bond fund is a Rothschild product, other families should be able to subscribe to the bond fund as well.

What is the benefit to Rothschild?

- Increased AUM from family office putting a \$50 minimum onto the platform to trade bonds.
- Increased fee flow as Rothschild would essentially be charging fees on the bond trades. As it is bonds it would be more the bid ask spread but should still provide bond desk with more flow
- Lending for trades would be locked to Rothschild. More lending fees.
- Base platform fee on large AUM. (0.3-0.5%?)
- Family offices would undoubtedly recommend their employees, friends, companies to invest in their "bond fund" as it would be "E2 safer" leading to even greater AUM and all the above benefits.

Practicality points

- ICM is looking with a few banks to do exactly the above and has 4 year trading experience as a licensed hedge fund with track record.
- ICM is looking to do 50-150 mln in said platform.

- ICM would want to do this because family funds are scattered in different companies and accounts and this allows for centralization in a way a hedge fund cannot easily allow. (EX: when it is not a Rothschild fund for example the family has to keep funds at the private bank and at the hedge fund leading to inefficient use of capital. Much simpler to have all the funds at the private bank invested in a private bank product; however, we would not do so because 1) fees are too high; 2) insufficient transparency; 3) leverage not as good; 4) in short private bank is much inferior to owning a hedge fund platform intentionally to gouge clients. In the past this was fine but with 2nd generation having worked at the banks, we just set up our own platforms now. We must keep minimums at banks necessary to keep it open and trade elsewhere which is a big loss to Banks. For reference, ICM across hedge fund equities and bonds pays around 1.5 a year on fees.
- ICM family side would want to pool corporate capital into this. Cannot pool into hedge fund. Currently capital pooled into commercial banks which makes us a lot less and bad service for investment management.
- In short, ICM aren't the only ones with this problem. Would like to setup biz around this - there is demand and i can bring others swiftly.

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