



IN THE COURT OF CHANCERY IN THE STATE OF DELAWARE

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MARIE RAYMOND REVOCABLE TRUST	:
and RICHARD and SHARON BROWER, as	:
Joint Tenants with Right of Survivorship,	:
	:
Plaintiffs,	:
	:
vs.	:
	:
MAT FIVE LLC, MUNICIPAL	:
OPPORTUNITY FUND FIVE LLC,	:
CITIGROUP INC., CITIGROUP	:
ALTERNATIVE INVESTMENTS LLC,	:
CITIGROUP FIXED INCOME	:
ALTERNATIVES LLC and REAZ ISLAM,	:
	:
Defendants.	:
_____	x

Civil Action No.

VERIFIED CLASS ACTION COMPLAINT

INTRODUCTION

1. This is a class action on behalf of all members/investors of MAT Five LLC (“MAT Five” or the “Company”), a Delaware limited liability company operating as a private hedge fund that sought to provide absolute returns and fixed-income to the members/investors. Substantially all of MAT Five’s assets were/are invested in an affiliated fund that implements municipal bond arbitrage strategies, defendant Municipal Opportunity Fund Five LLC (“MOF Five”), and both of the funds are managed by defendant Citigroup Inc. and its affiliates that are also named as defendants herein (collectively “Citigroup,” unless otherwise stated). Under the guise of a self-tender offer recently commenced by MAT Five (the “Tender Offer”), Citigroup intends to acquire as many shares of the Company as possible, capitalize on the appreciation of the assets and investments so acquired, and continue the ongoing liquidation of the Company. In addition, investors who tender

their shares must accept the terms of an extremely broad general release that covers any conceivable claim that could be brought against any of the defendants or their affiliates.

2. In this action, plaintiffs charge defendants with breaches of fiduciary duty arising out of their self-dealing and failure to disclose all material facts in the Tender Offer, including information regarding a pending SEC inquiry into Citigroup's hedge funds. Plaintiffs seek to enjoin the Tender Offer unless defendants comply with their fiduciary duty of candor. In addition, the action seeks to impose a constructive trust with regard to any profits defendants have obtained (or could obtain) as a result of their wrongful conduct together with an appropriate award of damages to compensate the members/investors for the harm they have sustained as a result of defendants' wrongdoing.

NATURE OF THE ACTION

3. This case is yet another in a recent line of cases in which individual investors were induced to invest a substantial amount of money in what was initially represented as a conservative investment that could guarantee reasonable yet absolute returns with minimal risk. In actuality, risky hedging strategies that were highly dependent upon leveraging municipal bonds exposed investors to massive losses when the nature of the investments departed from this conservative strategy and unprecedented volatility in the financial markets occurred. Against this backdrop, defendants have suspended redemptions and quarterly income distributions to investors, have begun liquidating the Company (and put in motion its dissolution), and Citigroup now seeks to acquire the Company for itself to capitalize on the sale of its assets. Importantly, even though Citigroup's management of hedge funds such as MAT Five and MOF Five are the subject of an SEC inquiry about which defendants have made insufficient disclosure, defendants seek to obtain a release from investors of legal claims relating to the Company's management and operations.

4. Under the guise of a self-tender offer directed to investors, in which MAT Five purportedly seeks to acquire its outstanding shares in exchange for a miniscule cash payment of \$0.231 per share¹ and the issuance of a so-called “participation” share, Citigroup, which will fund the transaction, will receive a newly issued share for each share tendered.² In this manner, Citigroup, which exercises sole discretion to manage the Company, will actually acquire the Company, because the issuance of a newly issued share for each tendered share will provide Citigroup with the aggregate ownership interest that those investors once held. Moreover, because Citigroup previously made a \$246 million cash infusion in MOF Five on favorable terms to itself that it later set – characterizing the loan as an “equity investment,” and issuing itself shares of MOF Five – Citigroup has also structured a back-end incentive for itself in the Tender Offer: the terms of the so-called investment entitle Citigroup to reap the benefits of the recent appreciation of MOF Five’s and MAT Five’s shares, thereby proportionately reducing the interests of those investors who do not tender.

5. In addition, in order to obtain a release of any investor claims, defendants have expressly conditioned MAT Five’s acceptance of any tendered shares on the investors’ agreement to an extremely broad general release that would cover any conceivable claim that may exist against any of the defendants, their advisors and numerous third-parties – whether actual, potential, known

¹ MAT Five is offering (and Citigroup is paying) \$0.206 per share in connection with the Tender Offer for shares of the Company’s California Portfolio.

² Upon the liquidation of the Company or a redemption of any of Citigroup’s newly issued shares or the shares associated with Citigroup’s alleged cash investment in the Company (described herein), a participation share purportedly entitles its holder to receive a cash payment per share equal to a pro rata portion of 75% of the cumulative gains allocable to the redeemed Citigroup shares (excluding accrued interest income) in excess of the original purchase price of those shares plus the cost of capital.

or unknown – arising out of the management and operations of the Company or the Tender Offer (the “Release”). This Release even conceivably extends to MOF Five, whose shares predominately comprise MAT Five’s “investments,” precluding investors from seeking any recourse relating to the faulty municipal bond arbitrage strategies MOF Five employed which adversely affected MAT Five. However, defendants have attempted to induce investors to participate in the Tender Offer, and execute the Release, on the basis of inadequate and materially misleading disclosures. These disclosures, which are contained in a Confidential Tender and Exchange Offer Memorandum, dated May 29, 2008 (the “Memorandum”), fail to adequately apprise investors of all material facts regarding the Tender Offer and the Release, including definitive disclosure as to whether the Release covers MOF Five. Moreover, the significance of adequate disclosure here is particularly acute, since public information regarding the Company or its underlying investments is not available because MAT Five is a private entity that is exempt from regulatory reporting requirements, and Citigroup controls the flow of information to investors.

6. Accordingly, through the Tender Offer Citigroup seeks to take over the Company for minimal consideration while evading liability for mismanaging the Company’s investments and operations. Without the equitable relief sought herein, investors will have no choice but to make an uninformed decision about whether to participate in the Tender Offer, thereby releasing any claim they may have against defendants. Moreover, investors who refuse to tender will have no choice but to subject themselves (and their investments) to the ongoing liquidation process that the defendants have put in motion, which defendants have veiled in secrecy.

PARTIES

7. Plaintiff Marie Raymond Revocable Trust, formerly known as Carl and Karen Schaefer Revocable Trust, acquired shares in the National Portfolio of the Company pursuant to a Private Placement Memorandum (“PPM”). Other members of the putative class also acquired their

8. Plaintiffs Richard and Sharon Brower purchased their shares of the California Portfolio of the Company pursuant to the PPM, as joint tenants with the right of survivorship. Other members of the putative class also acquired their shares in the Company pursuant to the PPM. Investors were required to invest a minimum of \$250,000 in order to acquire an interest in the California Portfolio (as were investors who acquired an interest in the New York Portfolio).

9. MAT Five is a Delaware limited liability company that was formed on June 10, 2005 and commenced operations in 2007. MAT Five has issued shares of at least three portfolios, the National, California and New York Portfolios, each of which invests in a corresponding portfolio of shares issued by MOF Five.

10. Defendant MOF Five is a Delaware limited liability company that was formed on June 10, 2005 to engage in municipal bond arbitrage involving fixed-rate, tax-exempt municipal bonds.

11. Defendant Citigroup is a Delaware corporation that describes itself as a global diversified financial services holding company whose businesses provide a broad range of financial services to consumer and corporate customers. Citigroup has more than 200 million customer accounts and does business in more than 100 countries.

12. Defendant Citigroup Alternative Investments LLC ("CAI") is a Delaware limited liability company that manages a wide range of products across five asset classes, including private equity, hedge funds, real estate, fixed income and infrastructure. CAI is an indirect subsidiary of Citigroup which manages capital on its behalf as well as third-party institutional and high net worth

investors. CAI acts as the investment manager for MAT Five, and manages the day-to-day operations and assets of the Company, under the supervision and control of its parent, Citigroup.

13. Defendant Citigroup Fixed Income Alternatives LLC (“CFIA”) specializes in the identification, development and management of alternative fixed-income products. CFIA operates as a business unit of CAI, and assisted in the sale of MAT Five shares and the drafting and dissemination of the PPM and other selling documents. CFIA also assisted CAI in managing the Company, assisting in portfolio management and risk oversight.

14. Defendant Reaz Islam (“Islam”) served as the Managing Director and Senior Investment Officer of CAI and the Managing Director of CFIA. Until recently, Islam managed the day-to-day operations of MAT Five on behalf of CAI. In May 2008, Islam reportedly announced his resignation, but purportedly will continue to manage MAT Five and/or other Citigroup-managed funds during a transition period.

15. Defendants received substantial fees for their participation in the selling and management of MAT Five. CAI, as Managing Agent, received a base management fee of 0.35% (0.38% for the New York portfolio and the California portfolio) of the par amount of the underlying municipal bonds plus the notional value of any swaps. In addition, a 1% placement fee was charged to investors.

SUBSTANTIVE ALLEGATIONS

Citigroup Promotes MAT Five as a Conservative Investment

16. The MAT Five fund was formed on June 10, 2005, and commenced operations in 2007. The PPM, dated June 17, 2005, indicates that the Company is structured to issue separate series of shares, all of which represent units of limited liability company interest whose value is contingent on the value and performance of a series of underlying shares issued by MOF Five fund. According to the PPM, MOF Five “makes economically leveraged investments in fixed-rate tax-

exempt municipal bonds and seeks to mitigate the interest rate risks through proprietary hedging strategies” – a strategy known as municipal bond arbitrage.³ Although each series of MAT Five shares may invest in other assets, substantially all of MAT Five’s “assets” were invested in MOF Five (and thus municipal bond arbitrage). CAI, as the managing agent of MAT Five and MOF Five, is vested with the discretionary authority to manage the investments and operations of both of the funds and continues to manage their day-to-day operations. The minimum investment in MAT Five’s National Portfolio was \$500,000, while the minimum investment in each of the Company’s California and New York Portfolios was \$250,000.⁴

17. Beginning in late-2006, Citigroup, through CFIA, CAI and other affiliated entities, began soliciting investors who it believed were interested in fixed-income investments that would provide reasonable yields in relation to conservative risks. From that point onward, the defendants assured investors that investing in MAT Five was safe and would virtually guarantee tax-free returns of between 7% and 8%. Specifically, MAT Five was promoted as an investment fund that was designed to produce stable cash flows in a tax-advantaged arbitrage opportunity. Investors were told that the MAT Five fund was the fifth series of four prior funds that employed the same type of investment strategy, each of which purportedly had performed well and either met or exceeded target returns, with net returns of 14% on a tax equivalent basis. The private placement was so successful that new investors were told that it would be oversubscribed.

³ Municipal bond arbitrage is an investment strategy that attempts to take advantage of the perceived market inefficiencies between the municipal and taxable bond markets, by leveraging investments in municipal bonds. The strategy seeks to capitalize on the steeper municipal bond yield curve and the higher after-tax yields offered by longer-term municipal bonds relative to the cost of hedging in the taxable markets.

⁴ The New York and California portfolios invested in the municipal bonds of their respective states. They also charged investors with a slightly higher percentage of management fees.

18. In the PPM, defendants represented that MAT Five’s “investment objective” was “to generate attractive after-tax returns through investments in limited liability company interests” issued by MOF Five, “a fund that makes economically leveraged investments in fixed-rate, tax-exempt municipal bonds” and which “will seek to mitigate the accompanying interest rate risks through proprietary hedging strategies” See PPM at 11-12.

19. Moreover, in the risk disclosures contained in the MOF Five Private Placement Memorandum, dated June 17, 2005 (“MPPM”), defendants implied that declining interest rates would cause an increase in the market value of the shares:

The market value of municipal bonds, like that of other fixed-income investments, generally declines as prevailing interest rates increase. Similar market value fluctuations may occur with Eligible Investments. In addition, their market value is dependent on the credit of the issuer of such bonds. Because the value of Residual Certificates is directly tied to the value of the Underlying Municipal Bonds, a decrease in the market value of those municipal bonds would cause a decrease in the value of the Residual Certificates. Such decreases could lead to a decline in the Fund’s Net Asset Value and could cause material losses to investors in the Fund. [See MPPM at Annex I-10.]

20. The MPPM also emphasized the risk management aspects of the strategy and that capital loss parameters might limit opportunities:

The Fund expects to achieve its goals through a *disciplined and experienced approach* to trading and a *rigorous risk management strategy* within the Investment Restriction and Guidelines. Key components of the Fund’s investment approach are the following:

- Relative Value Investing
- Portfolio Monitoring and Hedging Strategies

* * *

Portfolio Monitoring and Hedging Strategy

The Fund’s portfolio will be marked to market on a daily basis. The Managing Agent or Sub-Agent will evaluate the appropriateness of each Underlying Municipal Bond on an ongoing basis. *Any perceived changes in credit quality, yield spread relative to the Municipal Market Data index or an Underlying Municipal Bond’s relative value will cause the Managing Agent or Sub-Agent to re-evaluate*

the position. The Fund intends to capitalize on opportunities occasionally by selling Underlying Municipal Bonds that have appreciated against the Hedge Agreements and to liquidate positions perceived by the Managing Agent or Sub-Agent to add unreasonable risk to the Fund's portfolio. The Managing Agent or Sub-Agent will evaluate the Hedge Agreements that are in place for each Underlying Municipal Bond and adjust them based on, among other things, the structure of the particular Underlying Municipal bond, the current market environment and the Managing Agent's or Sub-Agent's view of the direction of the market. *The capital loss parameters established with the Managing Agent, which the Managing Agent and each Sub-Agent intend to follow, may limit the Managing Agent's and each Sub-Agent's choice of new or replacement Hedge Agreements or Synthetic Agreements, and may reduce the economic benefit of a particular hedge by comparison to a hedge not subject to such parameters.* [See MPPM at Annex I-36; all emphasis added.]

21. Largely modeled on the disclosures contained in the PPM, MPPM and associated documents, defendants disseminated additional promotional materials to investors in December 2006, in which they characterized MAT Five as an "indirect" investment in MOF Five and described it as a "[u]nique alpha generating strategy that seeks to deliver absolute returns and tax-advantaged income." Some of the "highlights" that defendants emphasized in those materials, including that they would employ proprietary hedging and leverage strategies and that they had extensive experience in managing alternative investments, reinforced this conservative image and the notion that the defendants could capitalize on inefficiencies in the municipal bond market:

- **Tax-Advantaged Arbitrage Opportunity:** Seeks to exploit inefficiencies between AAA/AA rated long-term municipal bonds relative to hedging interest rate risk in the taxable markets.
- **Proprietary Strategy:** Hedging and leverage strategies designed to produce stable cash flow and manage fluctuations in NAV resulting from changes in interest rates and shapes of yield curve.
- **Potential For Attractive Tax-Advantaged Returns:** Seeks attractive tax-advantaged returns, along with quarterly income distributions.
- **Experienced Management:** Citigroup Fixed Income Alternatives ("CFIA") was one of the first to develop and offer this strategy in 2002, and as of 11/30/2006, manages one of the industry's largest, most established programs with \$1.2bn of capital (\$13.8bn of AUMs) in other unique alternative fixed income strategies.

22. The defendants also repeatedly emphasized certain “key considerations” that further supported the long-term, conservative outlook that the defendants purported to employ in managing MAT Five, including that they recommended a five year “holding period,” that shares would be locked-up for two years, that the funds would employ reasonable leverage, and that the defendants would return capital to investors if they were unable to identify “suitable” investment opportunities:

- **Liquidity:** Recommended 5-yr holding period, shares are subject to a 2-yr lock-up with redemption fees of 3% in yr 3 and 1.5% during yr 4
- **Leverage:** This fund expects to employ 7-9x leverage, with a maximum of 12x.
* * *
- **Ramp-Up Period:** Fund expects to invest contributed capital over a 14-month period. During this initial ramp-up stage, returns and distributions may be lower and if the fund manager cannot find suitable investments and, [sic] after 14 months the fund may return un-invested capital to investors.

23. In addition, the defendants touted their consistent approach to managing investments, including CFIA’s purportedly “strict management process” that focused on strategy risks, interest rate risk, leverage, diversification, credit risk and spread risk.

24. Other promotional materials disseminated to investors in connection with the solicitation of investors reiterated these notions. In fact, even after the fund was subscribed, the defendants continued to assure investors that MAT Five was a safe and conservative investment.

25. For example, in a January 2007 article authored by defendant Islam and published by CAI, entitled “New Horizons in Fixed Income Investing,” defendants confirmed that MAT Five was suitable for fixed-income investors who sought absolute returns with minimal downside risk, as a result of the hedging strategies employed by the fund and the investment-grade municipal bonds utilized in implementing those strategies:

- The MAT Five fund would seek attractive tax-advantaged returns, with hedging strategies designed to manage fluctuations in Net Asset Value (“NAV”).

- The selected instruments would be AAA/AA-rated municipal bonds, swaps, swaptions and Treasuries.
- Each municipal bond at the time of purchase would be rated at least A3 by Moody's Investors Service ("Moody's) and AA by Standard & Poor's ("S&P").⁵

26. As detailed herein, these statements reflected a reckless or intentional disregard for the true risks inherent in the municipal arbitrage strategies employed by the MAT Five and MOF Five funds, the realization of which directly resulted in a meltdown of the funds. The defendants' inadequate risk management procedures also facilitated the precipitous decline of the funds.

MAT Five Deteriorates as MOF Five's Investment Strategies Fail

27. In or about April 2007, defendants issued MAT Five's quarterly report as of March 31, 2007, noting that the Company attempted to take advantage of increased municipal bond supply, and decreased investor demand, to capitalize on "buying opportunities" in furtherance of increasing the leverage of the fund to target levels. Defendants indicated that they believed impending interest rate cuts by the Federal Reserve "could cause the yield curve to further steepen and create additional relative value opportunities":

MAT Five National Portfolio (the "Fund") completed its first capital raise and began operations on February 14, 2007. Thus far, the markets have presented rather favorable investment opportunities for the Fund's initial ramp-up of the municipal arbitrage strategy and for purchasing short-term cash collateral. New municipal supply has been running ahead of our initial expectations, with \$106 billion issued during the first 3 months of 2007, a 53% increase over last year's near record levels. Given this magnitude of supply, investor demand began to wane near the end of the period. As a result, longer-term municipal yields moved slightly higher (cheaper) vs. Treasuries, which increased Long Ratios* and created buying opportunities for the Fund. We took advantage of these attractive buying opportunities, and as of March 31, 2007, the Fund was approximately 1.8 times leveraged. Subsequent to quarter-end, as of April 27, 2007, the Fund's leverage increased to 2.8 times. Once fully ramped-up, we continue to target a leverage range

⁵ Moody's A3: Obligations rated A are considered upper-medium grade and are subject to low credit risk. S&P's AA: Quality borrowers, a bit higher risk than AAA.

of 7-9 times, which we hope to have completed within 12-14 months of the initial closing, possibly sooner if market conditions continue to cooperate.

Looking ahead, we are optimistic about the investment opportunities, and continued ramp-up of the Fund. We believe that municipal bond issuance is likely to remain heavy for the next couple of months, with the possibility that 2007 full year supply may surpass the record \$408 billion set in 2005. The heavy issuance volume is likely to keep municipals attractive vs. Treasuries and aide the continued ramp-up of the Fund. In addition, we expect that in mid-to-late 2007, the Fed is likely to cut rates, *which we believe could cause the yield curve to further steepen and create additional relative value opportunities*. In summary, we are satisfied with the Fund's ramp-up thus far, and our outlook for the near term remains quite optimistic. We will provide you a more detailed summary in our next quarter report as of June 30, 2007. Emphasis added; footnote omitted.]

28. In or about July 2007, defendants disseminated MAT Five's quarterly report as of June 20, 2007, in which they acknowledged the onset of deepening issues relative to the subprime mortgage market. Defendants were optimistic, however, noting that any volatility in the subprime market "could keep bond market volatility elevated, cause the yield curve to steepen further and create relative value and income opportunities for the Fund":

For the quarter ended 6/30/07, the MAT Five National Portfolio (the "Fund") continued to ramp up the initial capital investment while posting a slight negative total return as income generation was offset by a decline in NAV that resulted from municipals generally underperforming relative to taxables, as more fully described below. Under what we believe were relatively attractive market conditions, the Fund continued to deploy capital into the municipal arbitrage strategy and began to generate higher levels of tax-exempt income. On 7/16/07, the Fund made its first distribution to investors equal to approximately 1% of the initial investment. Going forward, the Fund anticipates making regular quarterly distributions with the next distribution expected on 10/15/07.

* * *

Looking ahead, we are optimistic that issuance volume could remain heavy and aide in the continued ramp-up of the Fund. In addition, *economic uncertainty and concerns of a potential sub-prime contagion could keep bond market volatility elevated, cause the yield curve to steepen further and create relative value and income opportunities for the Fund. In summary, we are pleased with the Fund's ramp-up thus far, and our outlook for the near term remains optimistic*. Please see below for the details of your specific series. We will provide you a more detailed summary in our next quarterly report as of September 30, 2007. [Emphasis added.]

29. This rosy outlook changed in the fall of 2007, when CFIA issued MAT Five's quarterly report as of September 30, 2007, which showed how poorly the Company was performing, with a negative year-to-date return of 9.15%. Nevertheless, defendants continued to represent that the fund had taken advantage of market volatility and would not be adversely affected by it, assuring investors that the fluctuations in the net asset value ("NAV") of the Company would "not materially impact the Fund's ability to generate income":

Overall during the period, municipals underperformed vs. Treasuries and the Fund posted a total return of -7.85%. Subsequent to quarter end and through 10/18/07, Fund returns have increased by approximately 3.5%. Over the next 3-6 months, we believe longer-term muni-to-Treasury yield relationships will continue to decline towards more historical levels as the bond markets revert back towards normal levels. The Fund looked to benefit from this period of volatility by adding positions at what we believe were very attractive levels, as it continued to ramp up the initial capital investment (leverage increased to 6.8x from 4.7x – with target of approx. 8x). It is important to note that *periodic fluctuations in NAV do not materially impact the Fund's ability to generate income, and on 10/15/07, the Fund made its second distribution to investors equal to approximately 1.75% of their initial investments.* Going forward, the Fund anticipates making regular quarterly distributions with the next distribution expected on 1/15/08. [Emphasis added.]

30. Unfortunately for investors, defendants' assurances turned out to be false or seriously misguided, as developing facts of which defendants were aware undermined the effectiveness and increased the volatility associated with the Company's investment strategy. In MAT Five's quarterly report as of December 31, 2007, defendants described these conditions and the adverse effect that they had on the Company's return to investors:

From a historical perspective, the quarter ended December 31, 2007 was one of the most volatile quarters ever for the bond markets as the spreading sub-prime contagion, liquidity crunch and economic uncertainty caused a dislocation between tax-exempt and taxable yields, which resulted in the Fund posting a net total return of -17.08%. As the quarter began, the financial markets appeared to be recovering from the August turmoil, but by late October they took a significant turn for the worse as financial institutions disclosed significantly larger write-downs from sub-prime mortgage, CDO and LBO exposures. Market concerns about the health of the financial sector ignited a second and more severe flight-to-quality that pushed credit spreads on most fixed income sectors to near or above historically high levels as

investors shunned risk of any type. Bond market liquidity also declined due to capacity constraints on bank/broker balance sheets that have limited their ability to trade and offer credit. As investors rushed into the safety of US Treasuries, taxable yields declined steeply and more rapidly than tax-exempts, which along with growing concerns about “AAA” ratings of municipal bond insurers, caused the ratio of 20-year “AAA” insured municipal yields divided by Treasury yields to rise well above 100%, before recovering somewhat in December

31. However, even when faced with these adverse conditions, defendants continued to express an optimistic outlook and reassured investors that fluctuations in NAV would not “materially impact the Fund’s ability to generate income”:

Over the next 3-9 months, we expect continued volatility in the municipal arbitrage strategy due to headline risk regarding bond insurers, financial names and the US economy, but over time we feel the muni/Treasury relationship should gradually revert towards more historical levels as market uncertainty subsides. Please note that the unrealized fluctuations in NAV do not materially impact the Fund’s ability to generate income and that on 1/15/08 the Fund made a quarterly distribution

32. In fact, defendants portrayed the disruption in the credit and bond markets as an event that could benefit investors, noting that they had increased the Company’s leverage from 6.9x to 8.6x, while acknowledging that “the Fund’s NAV declined due to unrealized losses in our taxable hedges (Treasuries) that were not fully offset by limited unrealized gains in our muni bond portfolio.” Once again, defendants also continued to reassure investors that the long-term nature of MAT Five’s investment strategy would insulate its investments from losses:

It’s important to keep in mind that the inefficiency/volatility of the longer maturity municipal bond market relative to the globally traded Treasury bond market is the premise upon which the municipal arbitrage strategy is based, as *it seeks to benefit from periods of market dislocation to purchase municipal bonds* when the cost of hedging in the taxable markets looks cheap on a historical basis. *The Fund’s investment strategies are long-term in nature and seek to capture an income spread while also attempting to mitigate the longer-term impact of interest rate fluctuation on NAV*; they do not fully eliminate the interim volatility between shorter-term movements in Treasury rates because municipal rates typically lag. [Emphasis added.]

33. Contrary to defendants' assurances, the value of MAT Five's shares continued to decline over the next few months, compelling Citigroup to make an equity contribution to MOF Five (described below) as public attention increased regarding the manner in which the risky hedge funds were promoted to conservative investors.⁶ As *The Wall Street Journal* reported in an April 29, 2008 article:

The losses by the two hedge funds at issue, called Falcon and ASTA/MAT, are the latest examples of the credit crunch hammering retail, or individual, investors who believed they were holding low-risk securities.

* * *

Last year, as Citigroup was gearing up to launch new Falcon and ASTA/MAT funds, it encouraged brokers at Smith Barney and in Citigroup's private bank to pitch the funds to their best customers. One reason for the push: Initial market tremors caused the Falcon family to decline by more than 10%, and Citigroup hoped to stabilize it with an infusion of cash.

By September, the new Falcon fund had raised about \$71 million. A new ASTA/MAT fund raised about \$800 million. Both new funds were heavily comprised of retail investors.

Citigroup brokers and fund managers assured prospective investors that the new hedge funds were low-risk, with Falcon likely to post losses of no more than 5% a year in the worst-case scenario, according to people familiar with the situation.

"That's why they bought it," says a Smith Barney broker whose clients, many of them wealthy retirees, invested in the Falcon fund. "These kinds of clients weren't looking for a home run."

* * *

As of March 31, the new Falcon fund was worth just 25% of its initial value, according to internal documents. The ASTA/MAT fund had shriveled by Feb. 29 to less than 10% of its original value, the documents show. *Even as their performances deteriorated, Reaz Islam, the 41-year-old manager of the funds,*

⁶ In addition, as disclosed in a note contained in MOF Five's financial statements for the year ended December 31, 2007 (disseminated to investors on or after April 28, 2009), defendants indicated that effective March 2008, CAI had terminated the portfolio management agreement of Bigelow & Hart Capital Management, LLC, to which CAI had delegated a portion of its management responsibilities for MOF Five.

reassured uncertain brokers and clients that the funds were likely to rebound, according to people familiar with the matter. [Emphasis added.]

34. Then, on May 22, 2008, *The Wall Street Journal*, *Bloomberg*, *Reuters* and other news outlets reported that defendant Islam had announced his resignation from CAI/CFIA, but would continue his employment during a “transition period.” Islam’s resignation was apparently disclosed in an internal memorandum, dated May 20, 2008, circulated within Citigroup.

Citigroup Makes a Cash Infusion into MOF Five

35. As volatility in the financial markets continued to increase, MOF Five’s arbitrage and hedging strategies failed and its investments declined precipitously in value. These conditions allegedly prompted Citigroup to contribute approximately \$660 million to MOF Five in order to keep it and its affiliated funds – including MAT Five – afloat.

36. In a letter to investors dated March 20, 2008, defendants were forced to admit that “the cash positions and net asset values of ASTA/MAT municipal arbitrage fund portfolios, which include MOF Five National, have been severely impacted” by adverse conditions in the credit market that “spread into the municipal bond markets.” As a result, they represented that a cash infusion, which they characterized as an “investment,” was necessary to enable MOF Five to cover margin calls and continue to operate (although it is unclear whether any margin calls actually occurred). As defendants later disclosed in the Memorandum relating to the Tender Offer, as of February 29, 2008, “MOF Five’s liabilities exceeded its capital value, rendering MOF Five insolvent and unable to meet margin calls.”

37. In the March 20, 2008 letter, defendants indicated that Citigroup had “committed \$1 billion of equity to the ASTA/MAT platform in early March 2008,” and that \$661 million of the

equity had already been distributed across the funds, including MOF Five.⁷ At that time, however, they conceded that the “terms and conditions” of the cash infusion had “not yet been finalized.”

38. In addition, defendants also announced in the letter that they would indefinitely suspend MOF Five’s income distributions until further notice “in an effort to preserve liquidity,” delay redemptions of shares for those fund where the lock-up periods have expired, and “continue to look for opportunities to sell assets, increase liquidity and reduce leverage to allow the funds to move toward a more defensive position.”

39. Defendants further claimed that they were “very aware that some investors are interested in adding capital to their existing investments in specific ASTA/MAT funds to reduce the dilutive impact of Citi’s equity investment,” and indicated that they would “be in contact regarding the specifics of any follow-on ASTA/MAT offering.” Subsequently, the NAV of MOF Five’s shares – and thus MAT Five’s own shares – increased, although it appears that Citigroup did not announce any follow-on offering.

Citigroup Sets the Terms of the Cash Infusion

40. Subsequent to defendants’ announcement to investors about Citigroup’s cash infusion, and the fact that its terms had not yet been determined, defendants finally disclosed certain terms – although they have not yet disclosed all such terms.

41. In the Memorandum, defendants indicated that in exchange for the equity contribution, Citigroup approved the issuance of MOF Five shares to itself at the “Clean NAV” price, as that term is defined in MOF Five’s LLC Agreement (the “Citi MOF Shares”).⁸

⁷ The Memorandum indicates that an aggregate of \$246 million of this equity was distributed to MOF Five on February 29, 2008 and March 3, 2008.

42. Moreover, in the Memorandum and other materials disseminated to investors, defendants indicate that Citigroup has made certain “concessions” regarding the manner in which the Citi MOF Shares will impact investors’ interests. Specifically, Citigroup indicates that it agrees that the shares issued to it in connection with the Tender Offer, and the Citi MOF Shares, “will have a reduced share in the March and April 2008 income gains as well as future net income and gains.” Under the respective LLC agreements for MOF Five’s respective portfolios, “net income and gains for each period are allocated among all MOF Five shares owned by the Company and Citi MOF Shares in proportion to the total number of MOF Five shares outstanding.” According to defendants, if the general allocation rules of those LLC agreements “were followed for March and April 2008, approximately 97.3% of the net income and gains of MOF Five for that period would have been allocated to the Citi MOF Shares.”

43. Under defendants’ concessions, Citigroup has purportedly agreed that for the months of March and April 2008, 75% of the amounts that would otherwise be allocated to the Citi MOF Shares were instead allocated to the MOF Five shares owned by the Company and thereafter allocated to all of the investors’ MAT Five shares; the remaining amounts were allocated to Citigroup. Based on this allocation, the April 30, 2008 NAV of the MAT Five shares apparently increased in value. In addition, after April 30, 2008, investors would “receive an enhanced share of interest income of MOF Five corresponding to Citi’s reduced share of interest income with respect to its Citi MOF Shares.”

⁸ In essence, with respect to a share, Clean NAV is defined in MOF Five’s LLC Agreement as a pro rata portion of the net asset value of a given series of shares less the total amount of “Net Interest Income” earned and not yet distributed, which consists of certain earned interest income less accrued liabilities, “Operating Expenses” (*i.e.*, numerous costs associated with identifying and managing investments) and accrued and unpaid fees.

44. Defendants claim that it was not necessary to obtain the investors' consent to amendments to the applicable LLC agreements in order to effectuate the change in allocation, or other associated transactions, because the allocations did not adversely affect the investors' shares.

45. Nevertheless, as the defendants admitted in the March 20, 2008 letter to investors, the cash infusion and its related transactions adversely diluted the investors' interests.

The Tender Offer and Liquidation are Commenced

46. On May 29, 2008, MAT Five commenced the Tender Offer and disseminated the Memorandum to investors. In the Tender Offer, MAT Five has offered to pay \$0.231 cents and issue a participation share for each share tendered by an investor, on the condition that the investor will tender all shares and unconditionally agree to the Release, which would cover any actual or potential legal claim against any of the defendants, their affiliates and numerous third-parties. For each share tendered, MAT Five will contemporaneously issue one share of a new class of limited liability company interest to Citigroup and/or its affiliated entities in exchange for a payment of \$0.231 per share (which includes the interest allocation associated with Citigroup's equity contribution discussed above). The proceeds from the sale of these shares to Citigroup will be used to pay the investors who tendered their shares. In essence, therefore, Citigroup will be buying the shares investors tender.

47. According to the Memorandum, defendants launched the Tender Offer in order to "create immediate liquidity" for investors because the suspension of redemptions and distributions deprive investors of the "ability to realize liquidity" on their investments. At the same time, however, defendants have indicated that the Company will re-commence the distribution of income in the future, subject to CAI's "view of market conditions, cash balances and leverage in MOF Five." In addition, defendants have begun liquidating the Company's assets and will continue to do

so concurrently with the Tender Offer, with the intention of completing the liquidation by March 31, 2011. Defendants have indicated that it is unclear whether the Company will resume distributing income to investors prior to the completion of the liquidation.

The Memorandum Contains Material Omissions

48. As set forth in more detail herein, the Memorandum contains material omissions and misrepresentations that will prevent investors from making an informed decision about whether to tender their shares.

49. In particular, the Memorandum does not disclose the manner in which Citigroup calculated the Tender Offer consideration. It also fails to disclose the bases of the assumptions disclosed in Annex B to the Memorandum, which portrays different financial scenarios for those investors who tender and those who do not. The omission of this information is particularly troublesome in this case because the investors are not privy to material information CAI and its affiliates possess.

50. The Memorandum also fails to disclose enough information to enable investors to determine the nature of the claims that they have been asked to release. Thus, defendants must disclose in detail information regarding the events leading up to the Tender Offer, which relate to the management of the assets and the manner in which they were adversely affected by the strategies defendants employed and the subject of any regulatory, judicial or arbitration proceedings involving the Citigroup hedge funds or Citigroup affiliates.

51. For example, in the Memorandum, defendants disclosed that the SEC is conducting an inquiry of Citigroup's hedge funds, and has issued two document requests to Citigroup. However, the Memorandum does not disclose the nature or scope of the inquiry or even the specific funds subject to the inquiry, or the position that Citigroup intends to take with respect to it. Nor does

the Memorandum reveal the nature, scope or subject matter of the document requests. Investors must know this information to determine the claims under investigation and that may be subject to the Release.

52. The Memorandum also indicates that “certain affiliates” of MAT Five are “currently the subject of Financial Industry Regulatory Authority arbitration proceedings relating to sales practices relating to securities of the Company or its affiliates.” Once again, however, the Memorandum fails to disclose the nature, scope or subject matter of those proceedings beyond the general description provided. The absence of this information is provocative, considering the fact that the Company disclosed information regarding a prior pending action involving MAT Five and some of the defendants named herein.

53. By the same token, the Memorandum does not fully disclose the events resulting in the drastic decline in value of the Company’s shares, other than providing a general description of market conditions. However, it is critical for investors to know whether MAT Five or MOF Five departed from their investment strategies at any point, including at which point they lowered their target leverage (as disclosed in the Memorandum). A complete description of these facts is essential to enable investors to determine the nature and viability of claims relating to the management of the Company that are subject to the Release.

54. In addition, the Memorandum does not adequately disclose the reasons for the Tender Offer or Citigroup’s involvement, other than noting that the Tender Offer aims to provide investors with liquidity. However, Citigroup is not merely acquiring shares in the Tender Offer; it is attempting to acquire the Company and a complete release of investor claims. How Citigroup came to participate in the Tender Offer, when it could have simply attempted to liquidate the Company’s assets and distributed a *pro rata* portion to investors, is as yet unknown.

55. The Memorandum also omits key details regarding the cash infusion, including why its terms were not determined prior to effectuating it and why the investors' consent was unnecessary when the infusion would adversely dilute their interests. In fact, the Memorandum does not appear to even fully disclose the terms of the cash infusion (other than providing details regarding the allocation), since Citigroup evidently received shares of MOF Five in exchange for the contribution. The number of MOF Five shares that Citigroup received and its percentage of ownership must be disclosed, as well as the manner in which Citigroup determined the allocations to investors.

56. Moreover, there is no information as to why defendants elected to obtain the contribution from Citigroup as opposed to pursuing an alternate course of action, such as a non-dilutive loan.

57. Also absent from the Memorandum is information permitting investors to accurately value their shares, including an asset-by-asset description of the assets that will be liquidated and the assets of MOF Five that will remain under management. In addition, whether defendants have placed a value on the Release, and the amount of the value, is not disclosed, although the value to defendants presumably far exceeds the offered consideration.

58. Moreover, investors have been provided with a net asset value of their shares that is already more than a month old. Defendants must produce a more current value, if they are able to do so, particularly in the context of the Tender Offer – a time-sensitive transaction. By the same token, the data that defendants considered in calculating the net asset value must be disclosed to investors,

59. Further, investors cannot determine whether the liquidation may generate proceeds that will exceed the amount of the Tender Offer consideration, because defendants have failed to disclose virtually any information regarding the liquidation other than the fact that it is ongoing and that the defendants intend to complete it by March 31, 2011. Investors must know the manner in

60. Finally, in a section entitled “Limited Information,” the Memorandum contains an express acknowledgement that certain key financial information has been withheld from investors:

This Confidential Memorandum does not provide specific information with respect to any municipal bond, the issuers thereof, any tender option bond program, any TOB Dealer, any residual dealer, or any Residual Certificates, or with respect to any rights or obligations, legal, financial or otherwise, arising thereunder or related thereto, except information relating to the general characteristics thereof. In addition, this Confidential Memorandum does not purport to disclose current material information concerning any specific municipal bonds or Residual Certificates. The actual terms of the investment securities purchased by MOF Five and the Hedge Agreements and Synthetic Positions entered into MOF Five may vary significantly from the general terms described in this Confidential Memorandum.

61. The unreliability of the information that investors have been provided with is further evidenced by the fact that, in a section entitled “Limited Reliability of Forward-Looking Scenario Analysis,” defendants have cautioned investors not to rely upon the analyses that they have disclosed with respect to potential scenarios involving the Company:

Annex B to this Confidential Memorandum sets forth certain scenario analyses of the potential future results of MOF Five and the Company (for the purposes of this section, “Analyses”) prepared by the Managing Agent using, among other things, assumed fund portfolio characteristics as of April 30, 2008 and assumed variations in 20-year AAA insured municipal yields projected on a forward looking basis. . . . EXISTING HOLDERS ARE CAUTIONED NOT TO PLACE ANY RELIANCE ON THE ANALYSES AND SHOULD READ ANNEX B IN CONJUNCTION WITH THE ENTIRE CONFIDENTIAL MEMORANDUM, PARTICULARLY THIS “RISK FACTORS” SECTION.

62. Accordingly, the disclosures contained in the Memorandum are not only inadequate because they omit material facts but they are also unreliable and misleading.

The Fiduciary Duties Owed to Plaintiffs and the Other Investors

63. As managers of MAT Five, defendants Citigroup, CAI, CFIA and Islam had and have an affirmative fiduciary obligation to refrain from self-dealing and to act in the best interests of MAT Five's members. To diligently comply with these duties, the managers may not take any action that:

- (a) adversely affects the value of the assets of the Company or the investments of MAT Five's members; or
- (b) provides the managers with preferential treatment at the expense of, or separate from, MAT Five's members.

64. In accordance with their duties of loyalty and good faith, the defendants, as managers of MAT Five, are also obligated to refrain from:

- (a) participating in any transaction in which they will receive a personal financial benefit not equally shared by the members of MAT Five; and/or
- (b) unjustly enriching themselves at the expense or to the detriment of the members; and/or
- (c) eliciting member support of a corporate transaction, such as the Tender Offer, without disclosing all material information in a non-misleading manner to enable the members to make an informed decision with respect thereto.

65. Plaintiffs allege that these defendants, separately and together, violated their fiduciary duties owed to plaintiffs and the other members of MAT Five in connection with their operation of MAT Five and the investments by Citigroup in the fund, including their duties of loyalty, good faith and candor. Furthermore, defendants were at least grossly negligent in their management of the MAT Five fund's assets and engaged in self-dealing and/or obtained personal benefits for

themselves, and have attempted to obtain investor participation in the Tender Offer and a broad release from liability without disclosing all material information in a non-misleading manner.

Defendants' Conduct Was Intentional, Reckless and/or Grossly Negligent

66. Charged with the responsibility of running the day-to-day operations of the Company, CAI, its parent company Citigroup, affiliate CFIA, and Islam, knew or recklessly disregarded the fact that certain of the investment strategies that they employed were ill-suited for plaintiffs and the other members' investment goals and risk tolerances. These defendants were also aware of the immense adverse impact that changing market environments could – and did – have on the Company's investments.

67. Throughout their tenure in managing the fund, these defendants gave investors the impression that their investments were conservatively managed, and that defendants were taking steps to insulate the investments from losses as a result of volatility in the marketplace.

68. As demonstrated above, defendants knew or had reason to know that the markets were becoming increasingly volatile, yet they invested MAT Five's assets pursuant to strategies that exposed the Company to further losses, in contravention of the Company's stated investment strategies and the investors' known investment goals and risk tolerances.

69. Moreover, defendants are charged with the responsibility of managing the Company's operations and investments and apprising themselves of all material information regarding same, and they have used this information to generate management and incentive fees for themselves in furtherance of a scheme to acquire the outstanding shares of MAT Five without disclosing all material information in a non-misleading manner.

70. In addition, defendants knew or recklessly disregarded that the Memorandum contains materially misleading statements and omissions, and they participated or acquiesced in its

preparation and dissemination. At all relevant times, each of the defendants occupied a position of power and control over the Company and/or the Tender Offer, and had the ability to issue statements on the Company's behalf or the opportunity to participate in the Company's formulation and dissemination of statements to investors.

71. Defendants also have and had access to internal and other non-public information regarding the Company's operations. In knowing or reckless disregard of the true facts concerning the Company and their management of the Company, defendants prepared and disseminated the Memorandum seeking to induce the investors to tender their shares and release defendants from liability for their wrongdoing. They were thus active participants in the improprieties alleged herein, which will enable them to induce investors to agree to the Release and liquidate the Company for Citigroup's benefit to the detriment of the investors.

CLAIM FOR RELIEF

72. Plaintiffs incorporate each and every allegation set forth above as if set forth herein.

73. The Tender Offer is wrongful, unfair and harmful to the investors and represents an effort by Citigroup, and its subsidiaries and affiliates named as defendants herein, to aggrandize its own financial position and interests at the expense and to the detriment of the investors, in breach of defendants' fiduciary duties.

74. Moreover, defendants have violated their fiduciary duties to disclose all material information concerning the Company, the Tender Offer, the Release and other associated issues. In addition, in having voluntarily disclosed some information on these subjects, defendants assumed the duty to make further disclosure necessary to render their statements non-misleading.

75. The need for accurate disclosure of all material information is particularly acute here, because MAT Five and MOF Five are both private entities and information regarding their business

or operations is unavailable from any source other than defendants, who control the flow of disclosure to investors, but have capitalized on such inside information for themselves.

76. Moreover, in drafting and disseminating the Memorandum, defendants have unfairly utilized confidential information regarding MAT Five to their advantage and to the detriment of the investors, who are being asked to tender their shares on the basis of incomplete and misleading information. As a result, defendants must be compelled to disclose additional material and non-misleading information to plaintiffs and other investors in order to permit them to make an informed decision.

77. In the absence of injunctive relief requiring defendants to issue supplemental and/or corrective disclosures to members, and enjoining defendants from proceeding with the Tender Offer and accepting any tendered shares, members will be irreparably harmed because they will be forced to determine whether to tender their shares in the Tender Offer on the basis of the materially misleading statements and omissions of fact contained in the Memorandum, as set forth above. Investors will thus be required to make a determination of whether to relinquish much of their interest in the Company on the basis of inadequate information, a situation created by defendants' violation of their fiduciary duties to the members.

78. Investors will also be irreparably harmed without disclosure of the omitted information because, as a condition of tendering their shares, they are required to accept the Release, which purports to eliminate any legal claim members may have against any of the parties involved in operating the Company.

79. In addition, to the extent that any of the defendants do not directly owe fiduciary duties to the investors, they aided and abetted the breaches of fiduciary duty alleged herein by the other defendants that owe such duties. Accordingly, as a result of the defendants' conduct, MAT

Five investors have been and will continue to be irreparably harmed in the absence of injunctive relief enjoining defendants' pursuit of the Tender Offer and the Release unless defendants issue additional and corrective disclosures to the investors.

CLASS ACTION ALLEGATIONS

80. Plaintiffs bring this action as a class action pursuant to Court of Chancery Rule 23, individually and on behalf of MAT Five members/investors (excluding defendants and any person, firm, trust, corporation, or other entity related to or affiliated with them), who are being and will be harmed by defendants' actions.

81. This action is properly maintainable as a class action because:

(a) The Class is so numerous that joinder of all members is impracticable, because, at a minimum, hundreds of investors purchased and hold the Company's shares;

(b) There are questions of law and fact which are common to the Class, including, among other things, whether: (i) defendants have breached their fiduciary duties owed to the Class; (ii) plaintiffs and the other Class members would be irreparably damaged in the absence of injunctive relief; and (iii) defendants have engaged in conduct which requires dissolution of MAT Five;

(c) Plaintiffs are committed to prosecuting this action and have retained competent counsel experienced in litigation of this nature; plaintiffs' claims are typical of the Class's claims and they have the same interests; and plaintiffs are adequate representatives of the Class and will fairly and adequately protect the interests of the Class;

(d) The prosecution of separate actions by individual members of the Class would create the risk of inconsistent or varying adjudications that would establish incompatible standards of

conduct for the defendants or otherwise substantially impair or impede the members' ability to protect their interests; and

82. Defendants have acted in a similar, consistent and uniform manner toward the members of the Class, causing them similar injury.

PRAYERS FOR RELIEF

WHEREFORE, plaintiffs pray for relief and judgment, as follows:

A. Declaring that this action is properly maintainable as a class action, certifying plaintiffs as Class representatives and certifying their counsel as class counsel;

B. Preliminarily and permanently enjoining the Tender Offer, and restraining defendants or any others acting in concert with them from proceeding with it;

C. Imposing a constructive trust, in favor of plaintiffs and the Class, upon any proceeds, profits or other benefits improperly received by, or inuring to the benefit of, any of the defendants as a result of the wrongful conduct alleged herein;

D. Awarding damages to the Class in an amount that must be determined at trial in connection with the claims asserted herein;

E. Awarding plaintiffs the costs and expenses incurred in this action, including counsel fees and expert fees; and

F. Granting such other, further or different relief as this Court may deem just and proper.

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