

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

REQUEST FOR ACTION

**Subject:** Currency Overlay

**Action Requested:** Approval of First Quadrant, L.P.

**Background and Summary:** We recommend the approval of First Quadrant L.P. as a currency overlay manager in the Long Term Portfolio. A currency overlay manager's account needs no initial funding.

First Quadrant L.P. was established in 1988 and is headquartered in Pasadena, California. The group focuses on equity, global macro and currency investment strategies.

First Quadrant L.P. will manage a portion of the Long Term Portfolio's non-U.S. dollar exposure. The Long Term Portfolio has substantial exposure to foreign currencies through its investments in non-U.S. equities, as non-U.S. stocks are purchased with local currencies. The University's non-U.S. equity managers primarily focus on the relative attractiveness of individual stocks and countries rather than currencies when building portfolios. The resulting currency exposures are largely unintentional and represent risk for which the University is not compensated. To better manage this risk, we recommend First Quadrant's currency program to focus on a portion of the University's currency exposures and to add incremental value to the portfolio through active management. First Quadrant would adjust the currency exposures of the University's existing international equity portfolio to reflect its view of the currencies' relative attractiveness to create a more efficient portfolio and generate additional returns.

First Quadrant employs a systematic approach to active currency management, performs empirical research and constructs quantitative models based on fundamental factors to capture different market inefficiencies. The models serve as the means to evaluate the data and deliver signals of relative attractiveness for each currency. Implementation is highly disciplined with a firm risk-control approach.

An investment in First Quadrant L.P. currency program is consistent with the University's strategy to invest with experienced managers who have a niche strategy and a proven ability to add value.

Respectfully submitted,

  
Timothy P. Slottow  
Executive Vice President and  
Chief Financial Officer

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