

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Approved by the
Regents
September 18, 2014

REQUEST FOR ACTION

Subject: Fixed Income

Action Requested: Approval of unlevered convertible arbitrage for the Fixed Income asset class and approval of Camden Asset Management

Background and Summary: In 1986 the Board of Regents defined eligible fixed income securities for investment of endowment funds as investment grade bonds, a definition which remains in place. In an era of high and falling interest rates, niche investment strategies that could play a role in the fixed income portfolio were not considered given the profits to be had from ordinary investment grade bonds. In contrast 28 years later, we are in the opposite environment, an era of severely low interest rates, and face the potential of rising interest rates at some future date. As interest rates rise, ordinary investment grade bond prices fall, posing a risk to the fixed income portfolio.

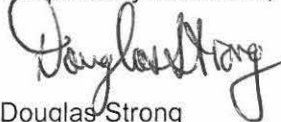
We recommend the approval of unlevered convertible arbitrage for the Fixed Income asset class. Convertible arbitrage is a proven investment strategy practiced for decades in which an investor purchases a convertible bond and concurrently sells short the issuer's stock. We believe unlevered convertible arbitrage meets the purpose of the fixed income portfolio by offering a fixed income-like return, providing good liquidity and protecting principal adequately in economic recessions while having the added benefit of being insensitive to rising interest rates.

We recommend additionally the approval of Camden Asset Management, a Los Angeles, CA, based convertible arbitrage manager, with an initial funding of \$75 million from the Long Term Portfolio.

Established in 1991 by John Wagner, Camden Asset Management specializes in managing unlevered convertible arbitrage portfolios. Camden employs a large and highly experienced investment team that approaches the investment strategy conservatively in a diversified manner. In environments where investment opportunities appear scarce, they will hold cash rather than pursue situations with inadequate reward for risk.

This investment will diversify the fixed income portfolio, help protect the portfolio against the long term potential risk of rising interest rates and further the University's goal to maximize the long term risk-adjusted return of the Long Term Portfolio.

Respectfully submitted,



Douglas Strong
Interim Executive Vice President and
Chief Financial Officer

September 2014