

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Subject: Absolute Return

Action Requested: Approval of Kaleidoscope Capital

Background and Summary: We recommend the approval of Kaleidoscope Capital, a Boston, MA, based asset manager with an initial funding of \$50 million from the Long Term Portfolio to their Spectrum fund.

Through its Spectrum Fund, Kaleidoscope trades put and call options on a market index or replicates put and call options on a market index through the use of futures. The strategy is to identify options that are mispriced and then take long and short positions that should benefit when the options move toward fair value or as they approach expiration. The Spectrum Fund will initially pursue this strategy using options on global equity indices and may broaden into other option markets in the future.

Kaleidoscope was founded in 2014 by Nick Nanda and Kai Wu to pursue a long-short global macro strategy. Options comprise one facet of that strategy and earlier this year, with the addition of Alex Giravets who has significant expertise in option theory, they decided to offer Spectrum as a stand-alone fund. Spectrum is expected to generate equity-like returns with less risk than traditional equity investments.

This investment will diversify the absolute return portfolio and further the University's goal to maximize the long term risk-adjusted return of the Long Term Portfolio.

Respectfully submitted,



Kevin P. Hegarty
Executive Vice President and
Chief Financial Officer

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