



PRODUCT OVERVIEW

We derive all of our investment strategies from market and economic relationships that are value-oriented and confirmed by economic and finance theory. These strategies are often contrarian in nature, due to their willingness to buy assets that have fallen out of favor in the marketplace and to sell assets that complacent investors have priced too high. Coupled with the systematic, disciplined implementation mandated by quantitative methodologies, the products capture value where it is most uncomfortable, and thus potentially most profitable.

But once a strategic policy mix is set, the world is sure to change. Will the established policy mix remain optimal under new economic and market conditions? Our suite of strategies span the spectrum of alternative responses to such changes.

Each product is composed of a diversified set of investment strategies. No product relies upon the identification of a single market inefficiency that might be subject either to partial or complete arbitrage. The risk of individual inefficiencies failing to add value is therefore diversified not just across product areas, but also within each strategy.

Finally, our commitment to innovation keeps us moving ahead of the marketplace. We continuously discard reliances upon purported market inefficiencies that have been arbitrated away and turn our attention to different inefficiencies that promise to generate added value in the future.



TACTICAL ASSET ALLOCATION

Tactical asset allocation (TAA) employs prompt responses to changes in market pressures and economic conditions in order to add value and to stabilize the total return for the long-term strategic asset allocation. As opposed to market timing strategies, these strategies are value-based. In other words, tactical asset allocation manages shifts in the portfolio that aim to reduce exposure to overpriced assets and to increase exposure to underpriced assets that have improving prospective returns.

Tactical asset allocation can be applied at the global level or the single country level in a domestic TAA program.

Emerging Markets Equity Allocation

We have found that we can identify significant opportunities by extending our equity allocation framework to emerging markets. Consequently, we have enlarged our global asset allocation methodology to include these markets. We base these country allocations on the same theoretical framework that we bring to bear in established equity markets

This strategy can be implemented in several ways. First, the strategy can be a true equity product, whereby we make country allocation decisions across the emerging equity markets, and are strictly passive within countries. We make timely shifts to countries that are relatively undervalued at the expense of those that are relatively overvalued.

In addition, however, the mandate may go beyond country allocations to allow asset allocation decisions that include investments in bond and cash markets as well as in equity markets. When we find some or all emerging equity markets overvalued relative to alternative fixed income markets, we have the capability to shift some of the investment into fixed income investments.

Tactical Options Program

The Tactical Option Program (TOP) is an option based overlay strategy designed to add incremental value to the underlying investment portfolio. Through the use of options on global financial markets, we construct a portfolio that is positioned to add value during the non-turbulent periods of the market cycle. In contrast to tactical asset allocation, which tends to produce its best results in turbulent markets, the tactical options program is at its best in quiet conditions. The uncorrelated nature of this program makes it an ideal complement to a tactical asset allocation program.

CURRENCY MANAGEMENT

Unlike the vast number of currency managers who utilize technical trading rules, we base our currency management almost exclusively on the fundamental mechanisms behind global capital flows. Instead of following the crowd in the application of momentum-based strategies, we focus on economic and financial trends that determine real exchange rate relationships and value measures, in order to gauge which currencies are at risk and which are trading at a price different from their fair value.

Currency management can be managed as a separate currency overlay program, or used to complement our Global Tactical Asset Allocation and Global Equity products.



POLICY ALLOCATION CONTROL (PAC)

All too often, wisely chosen investment policies exist only on paper. We provide several products designed to overcome these problems and eliminate the slippage that can erode investment results at the fund level.

Completeness Portfolios

Completeness portfolios employ carefully designed quantitative methods to minimize the gap between current fund structure and the target fund structure. As in asset allocation, there are often sources of slippage between the target fund structure and the aggregate investments; completeness portfolios are designed to fill this gap. We manage these portfolios to add value, for both domestic and international mandates.

Transition Management

We manage fund transitions to cost-effectively ensure that the policy mix is preserved as funds are reallocated from one manager to another. This is also managed on both a domestic and international basis, and often involves the use of futures to maintain the desired asset allocation mix.

Cash Equitization

Cash Equitization is designed to overcome the high opportunity costs of holding idle cash. We utilize futures to redeploy cash equivalents into higher-yielding instruments, thereby assuring the returns of a fully-invested portfolio.

This can be done domestically or globally. Global equitization with futures not only cuts trading costs by 80-90%, it also avoids withholding taxes that erode more conventional international investment returns. Therefore, global synthetic portfolio equitization can generally outperform global index funds.

Tactical Rebalancing

Tactical Rebalancing is a strategy of simple, mechanistic rebalancing of the portfolio to the target asset allocation. It uses derivative securities to rebalance the portfolio periodically back to its designated mix when market fluctuations (and asset attractiveness signals) make these adjustments necessary. This is a partially active strategy (using signals from our GTAA models) to determine the optimal time to rebalance or to let the asset mix drift. It ensures that the asset mix, the single most important decision in portfolio management, remains under control instead of being buffeted by market forces. Through the use of accurate asset forecast it aims to add incremental return over simple rebalancing at low levels of risk.



EQUITY STYLE MANAGEMENT

We pioneered the application of style management strategies to the US and major international equity markets. By analyzing the market and economic conditions that drive returns to a broad set of investment styles, such as momentum, size, growth, value, industries, the strategy shifts portfolio weightings toward the styles (factors) with highest expected returns

and away from those whose prospects are least favorable. Our models often tend to favor factors whose recent performance has been poor and to reject those that have been outperforming the market.

We should emphasize that First Quadrant is not a traditional stock-pricing organization; equity style management portfolios are broadly diversified and represent a comprehensive set of comprehensive style attributes in the marketplace.

Although these traditional long-only strategies can be benchmarked to broad market equity indices, or on specific styles such as value, growth, or mid-cap strategies, we also offer market neutral equity investments.

Market Neutral Style Management

Market neutral style management employs a long/short equity portfolio to neutralize market volatility, offering far greater scope to exploit unattractive style attributes than the long-only portfolios. By betting on both sides of market fluctuations, we have the opportunity to earn a double alpha, not just the single alpha of the long-only approach. These market neutral strategies are also among the most diversifying investments available, particularly on a global basis.

Tax Advantaged Investing

We are a leader in considering the implications of taxes in the context of investment strategies for taxable investors. For taxable investors, what matters is not the pre-tax return, but the *after-tax* return. We offer an investment strategy that explicitly takes into account tax effects in our Style Management discipline for taxable investors, with the goal of delivering superior after-tax return.