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ACTIVE CURRENCY MANAGEMENT

OIA

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CFTC

US Commodity Futures Trading Commission
Three Lafayette Centre
1155, 21st Street
NW, Washington
DC 20581
United States of America

OFFICE OF
INTERNATIONAL AFFAIRS

Office of the
Secretary

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20 November 2012

Re: Dodd Frank Act – Proposed Collateralisation Obligations for NDF's

Dear Sirs,

I refer to the Dodd Frank Act and, in particular, the impact on US pension funds of the proposed collateralisation obligations in respect of non-deliverable forward foreign exchange contracts (NDF's).

Lee Overlay Partners Limited, trading as Adrian Lee and Partners, is a global currency manager with clients in the United States, Europe and Australia. We have been managing currency for our clients since 2000 and the core team that set up Adrian Lee & Partners were together at JP Morgan Investment Management where Adrian Lee pioneered currency overlay.

We are writing to the CFTC out of concern for our US client base regarding the restrictions you are looking to implement on NDF foreign exchange contacts. The impact of the NDF restrictions will put US pension funds and the pensions of all American workers at a global disadvantage, and make securing the returns required to ensure that public pension needs can be met in the future much more difficult.

Every investment in an international asset requires an equal investment in foreign currency. Movements in foreign exchange markets can nullify gains or amplify losses on the underlying portfolio of international assets. There is strong evidence to suggest that the return to currency is zero in the long run (currency here means a basket of currency held in proportion to the equity in a typical international portfolio of equities). So, clients have an increased exposure to risk but zero return. Over the time horizons that are typically of concern to an investment strategy, we cannot be sure that the effect of currency will "wash out". A currency overlay manager is dedicated exclusively to managing these "accidental" currency exposures generated by the asset manager, separately from, but in parallel with, the underlying manager. The annual risk of foreign currency is about 10%, in between that of a portfolio of foreign bonds and a portfolio of foreign equity, which is significant.

Directors: AF Lee, D Kirkpatrick (UK), C Flynn, H Cullinane (Reg Number 302915 Reg Office: Block 1, 6th Floor, Grand Mill Quay, Barrow Street, Dublin 4, Ireland)

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US investors with international exposures use foreign exchange contracts to reduce the currency risk in their international portfolios. As pension funds continue to diversify their portfolios they are increasingly looking at emerging market investments to capture alpha. Some of the largest economies in the world today are these emerging market economies and the likes of Brazil, China and Korea, all offer excellent opportunities for US pension funds to diversify and to outperform their benchmarks. The currencies in many of these regions do not generally have a deliverable market for forward contracts and, in this situation, it is necessary for investors to manage the currency exposures using NDF's. However, the restrictions from the Dodd/Frank legislation would now require all US investors who invest in such emerging economies to have additional capital available in order to hedge the currency risk. We understand that foreign exchange forward and swap contracts will be exempt from a collateralisation obligation; however, NDF's would not currently fall within this exemption.

US investors with overseas exposure would, therefore, need additional capital for the margin on the NDF contracts and will be forced to take capital from current investments to facilitate the NDF contracts. This will lead to reduced returns for US pension funds and reduced diversification for investors who need to reduce their international investments now because they can no longer hedge the associated currency exposures.

Therefore, we believe and would ask the CFTC that any US regulations requiring margin for NDF's should be waived for pension funds.

Should you require any input from Adrian Lee & Partners in this process, we would be delighted to assist.

Yours faithfully


Adrian Lee
President & CIO

cc. Securities and Exchange Commission