



Agenda

- How currency impacts your international investments
- Is FX hedging an option
- Australia
- The rest of the world



How currency impacts your international investments

- The history of money
- Investors who own foreign assets are exposed to currency risk
- What can we do about it

Risky things are not in themselves risky if you understand them and control them. If you do it randomly and you are sloppy about it, it can be very risky.”

Ray Dalio, founder of Bridgewater Associates the worlds largest hedge fund



How do we hedge currency risk...

- FX forward contracts allow us to lock in the current exchange rate with an adjustment for the difference in interest rates between two countries
- Foreign exchange markets are vast so the costs of hedging are negligible
- Once a contract is in place the effect of currency gains or losses on the portfolio are offset by equal and opposite moves in the value of the hedge

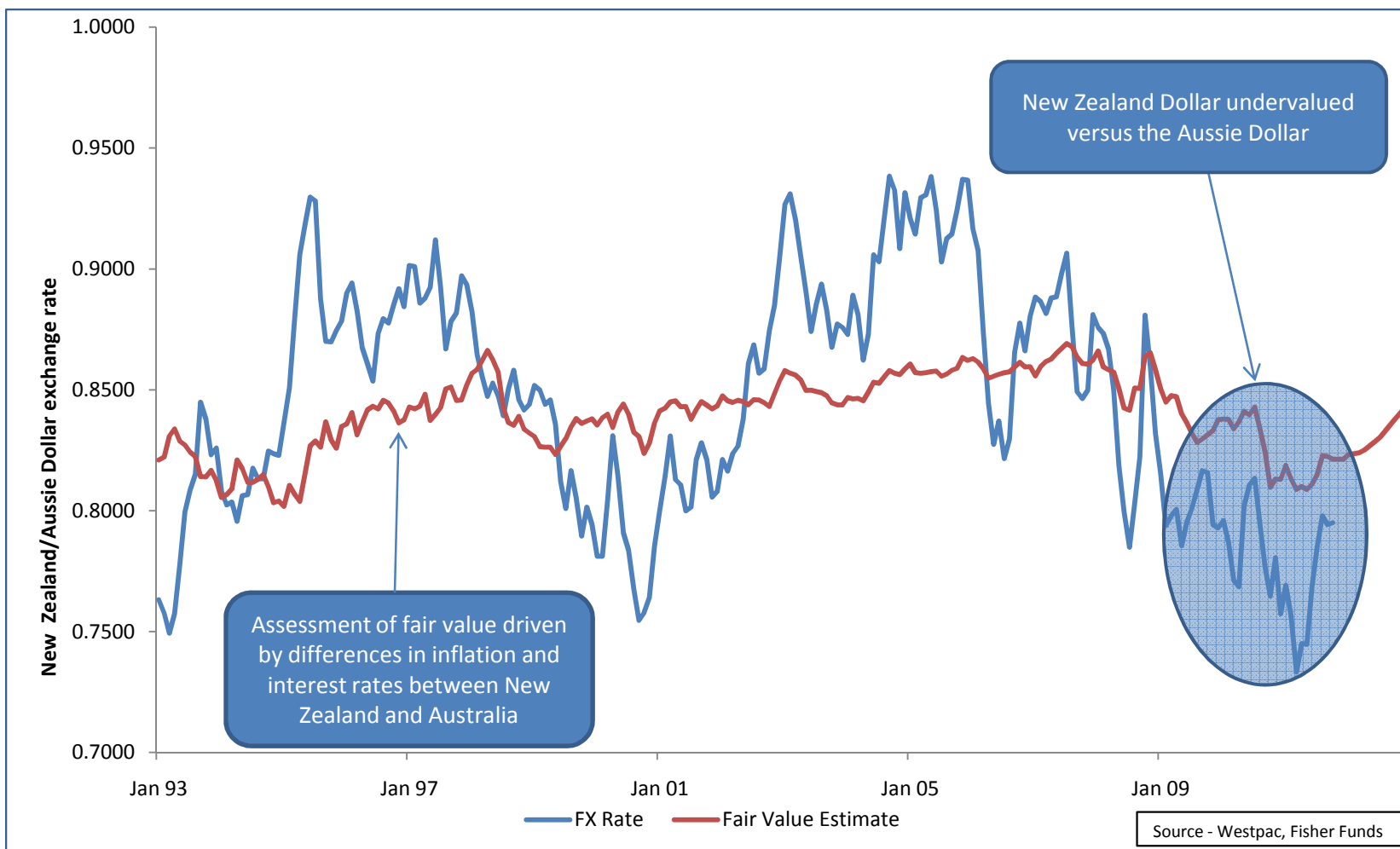
FX forwards are a valuable risk management tool helping us protect the New Zealand dollar value of your investment

How do we hedge currency risk...an example

To illustrate imagine a NZ\$1,000,000 portfolio invested in Australian shares for a one month period. Lets also assume the share market does not move at all over this time. The initial exchange rate is \$0.80. We have also assumed Aussie and kiwi interest rates are equal.

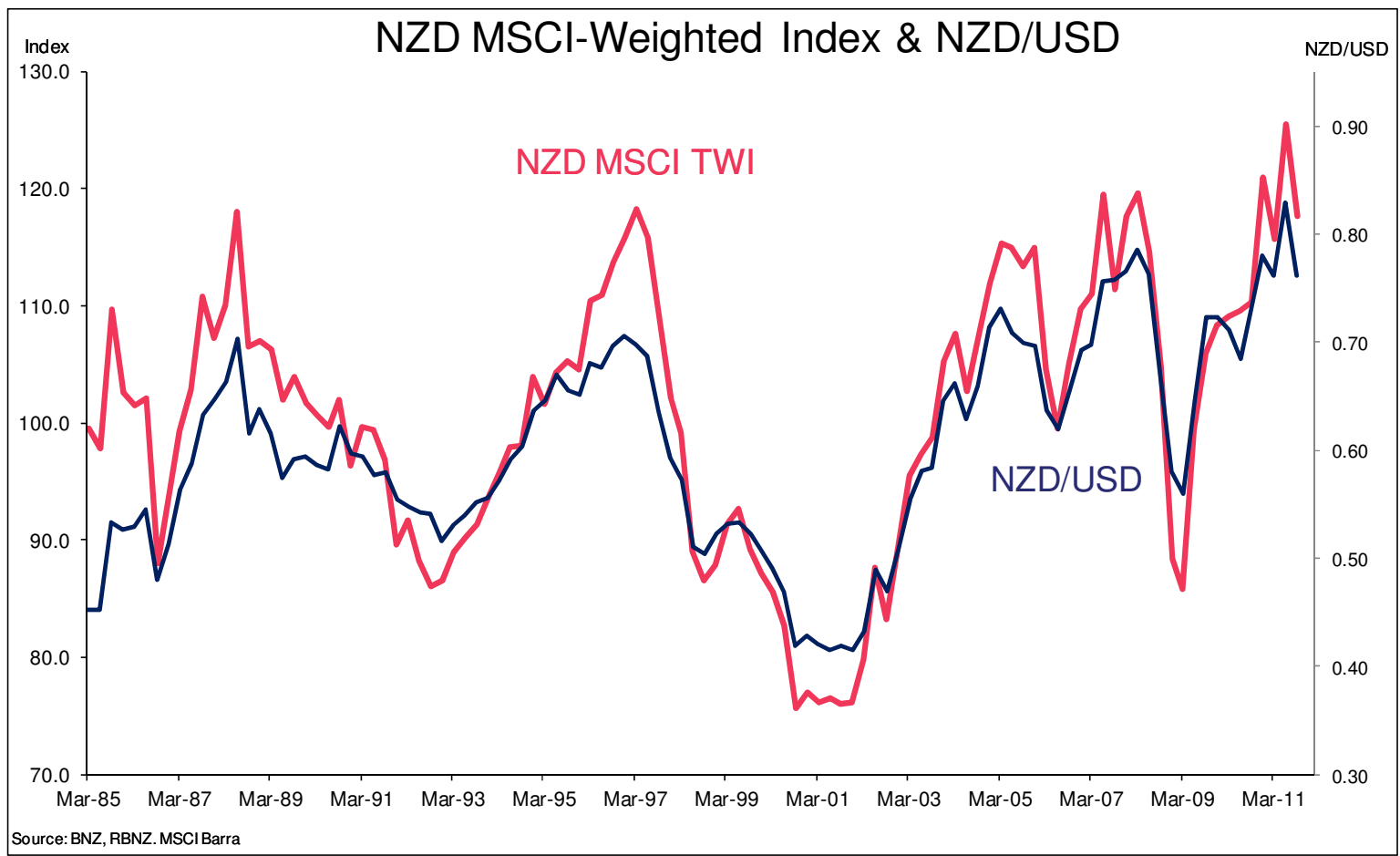
	Currency Move	Impact
No hedge	New Zealand Dollar moves to \$0.90	NZD Share Portfolio falls to \$888,888 Final Portfolio value is \$888,888
	New Zealand dollar moves to \$0.70	NZD Share Portfolio rises to \$1,142,857 Final Portfolio value is \$1,142,857
	Currency Move	Impact
100% hedged	New Zealand Dollar moves to \$0.90	NZD Share Portfolio falls to \$888,888 Hedge generates profit of \$111,112 Final Portfolio value is \$1,000,000
	New Zealand dollar moves to \$0.70	NZD Share Portfolio rises to \$1,142,857 Hedge generates loss of \$142,857 Final Portfolio value is \$1,000,000

Undervalued against the Aussie ... we are 55% hedged

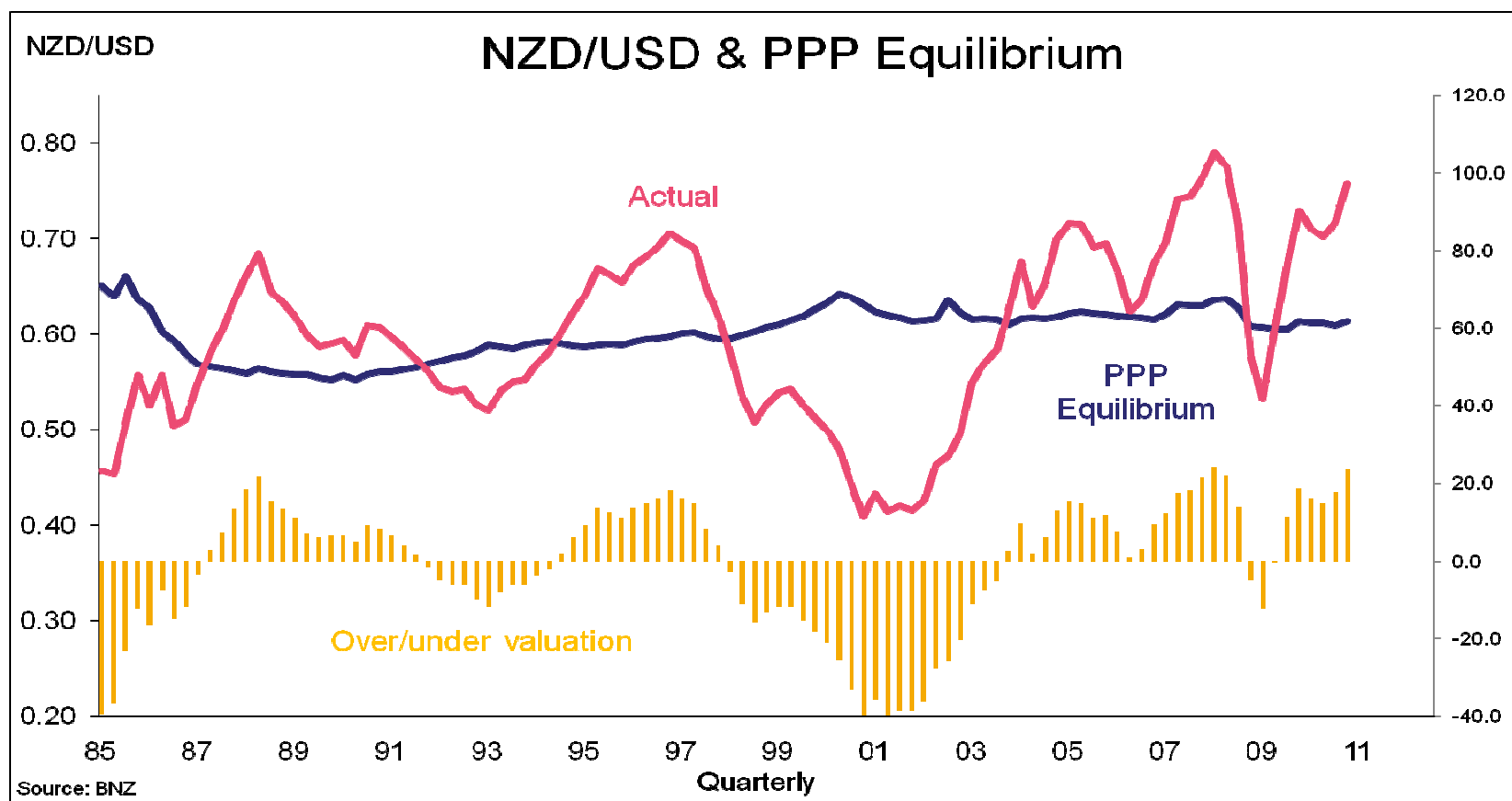


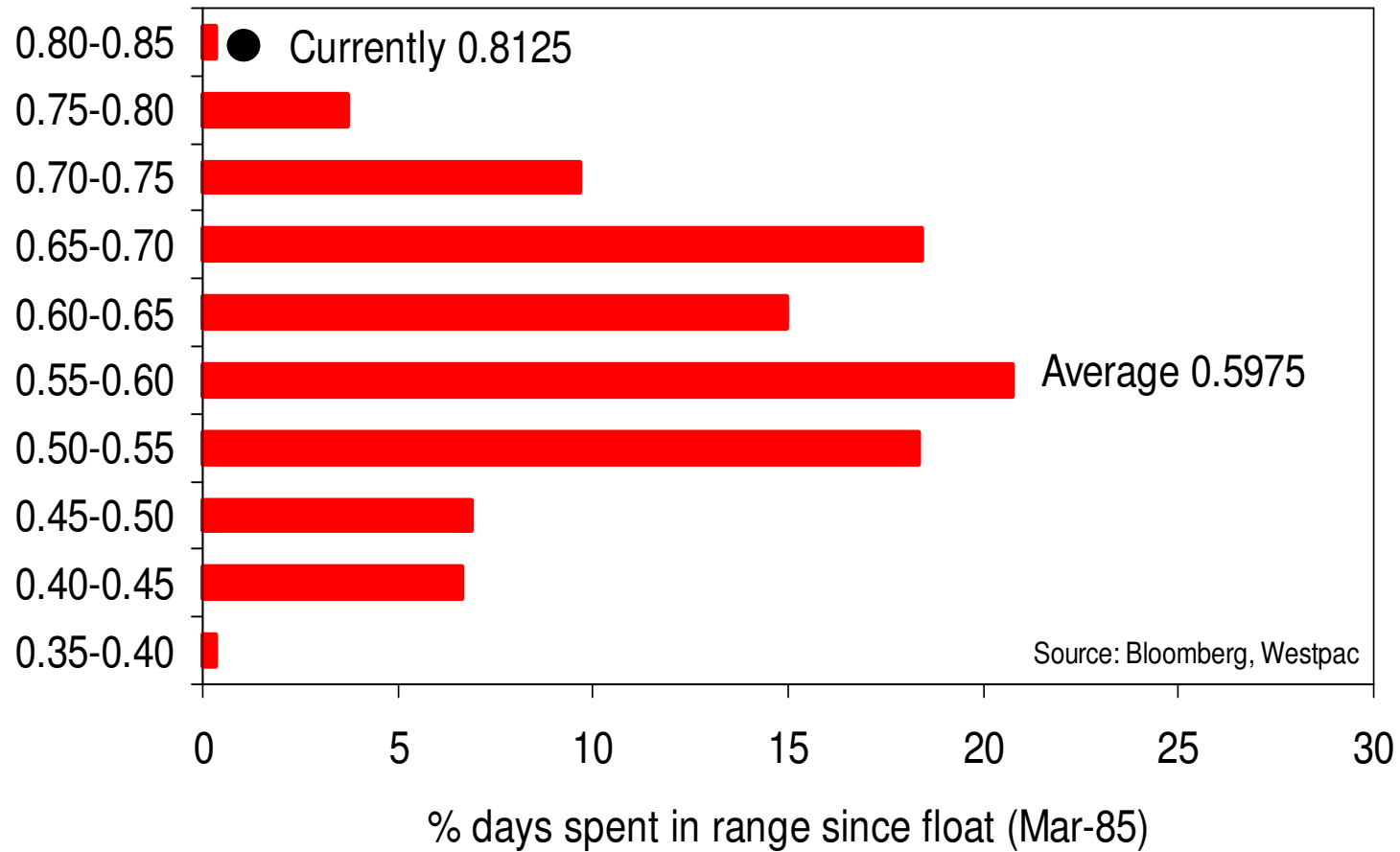


Does hedging decrease volatility?



Purchasing Power Parity (PPP) suggests that real exchange rates are mean-reverting over long horizons







Our Approach

- Our base case is no hedge
- We analyze hedging based upon:
 - Price or valuation extremes
 - Research indicating the medium to long term fundamentals of the N.Z Dollar
 - Structural views on currencies
- This has historically been a good time to be moving money offshore



Disclaimer

The information given during this presentation is class advice and is not to be taken as 'personalised financial advice'

A disclosure statement is available upon request