

Managing Foreign Currency Risk in a Global
Portfolio: Breakfast Briefing

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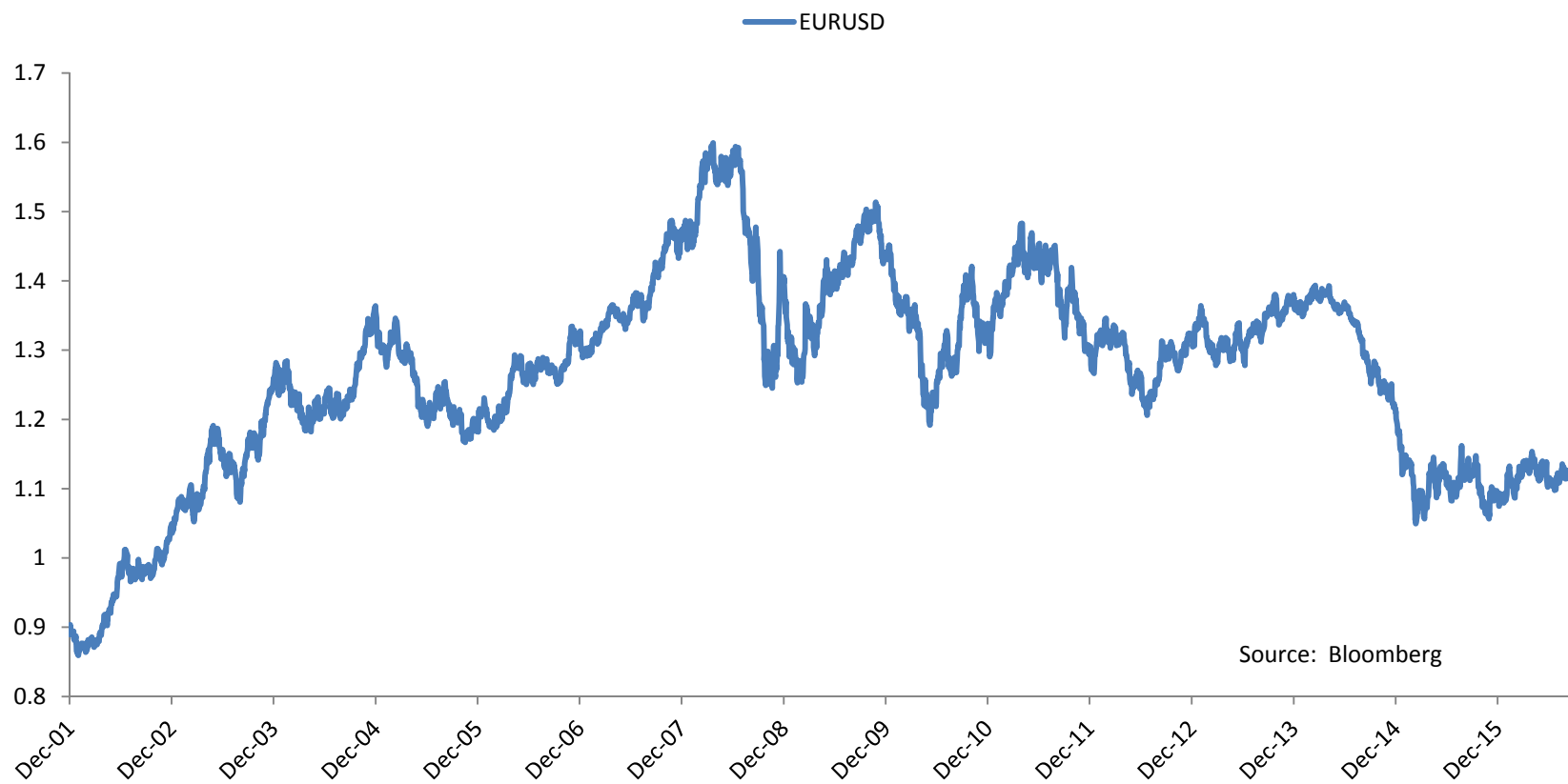
Currency Portfolio Manager

Mesirow Financial Currency Management

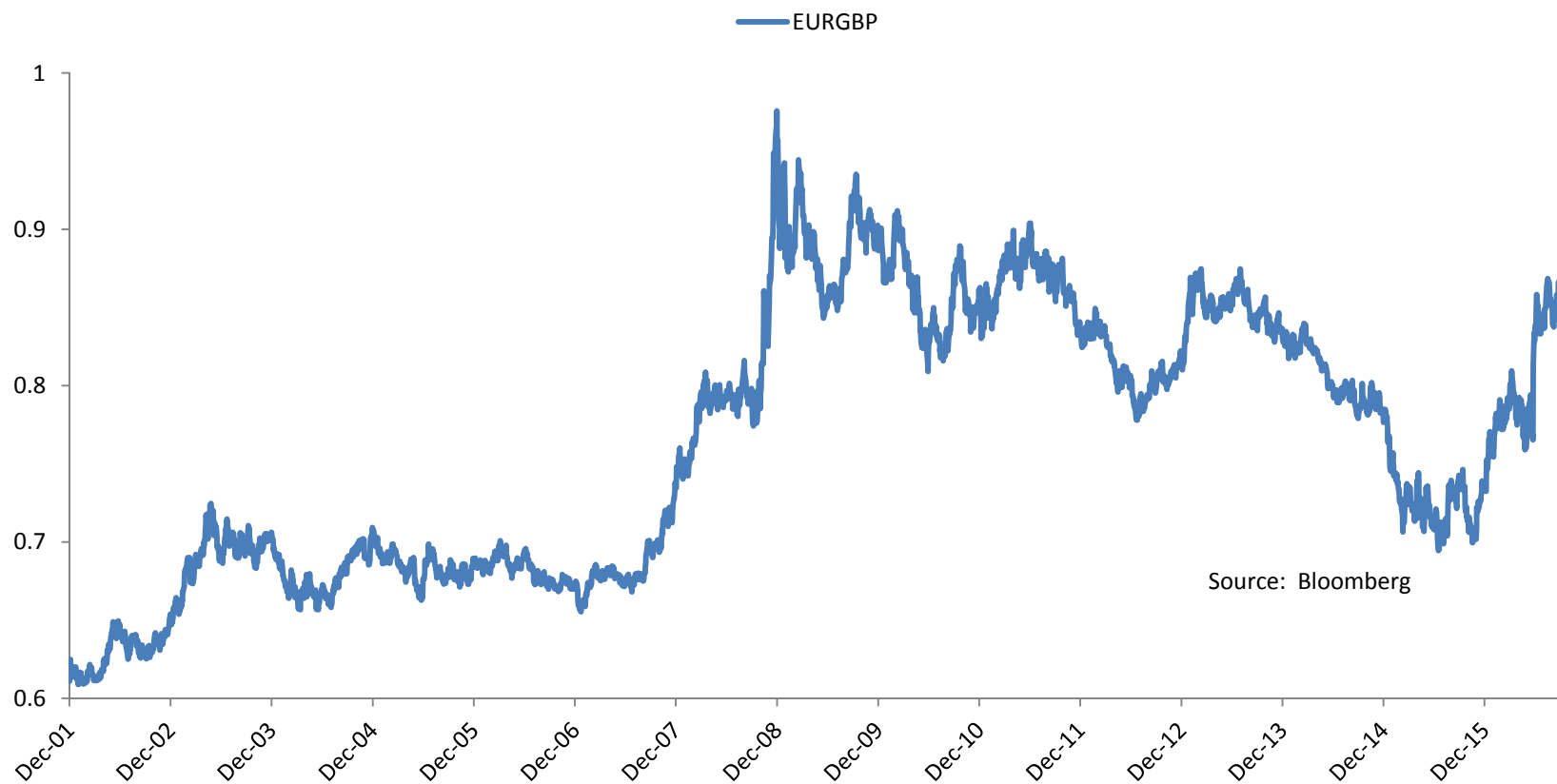
Currency Risks and Opportunities - Overview

- Context for Euro-based investors
- Current market drivers
- Risk management considerations
- Regulatory Update

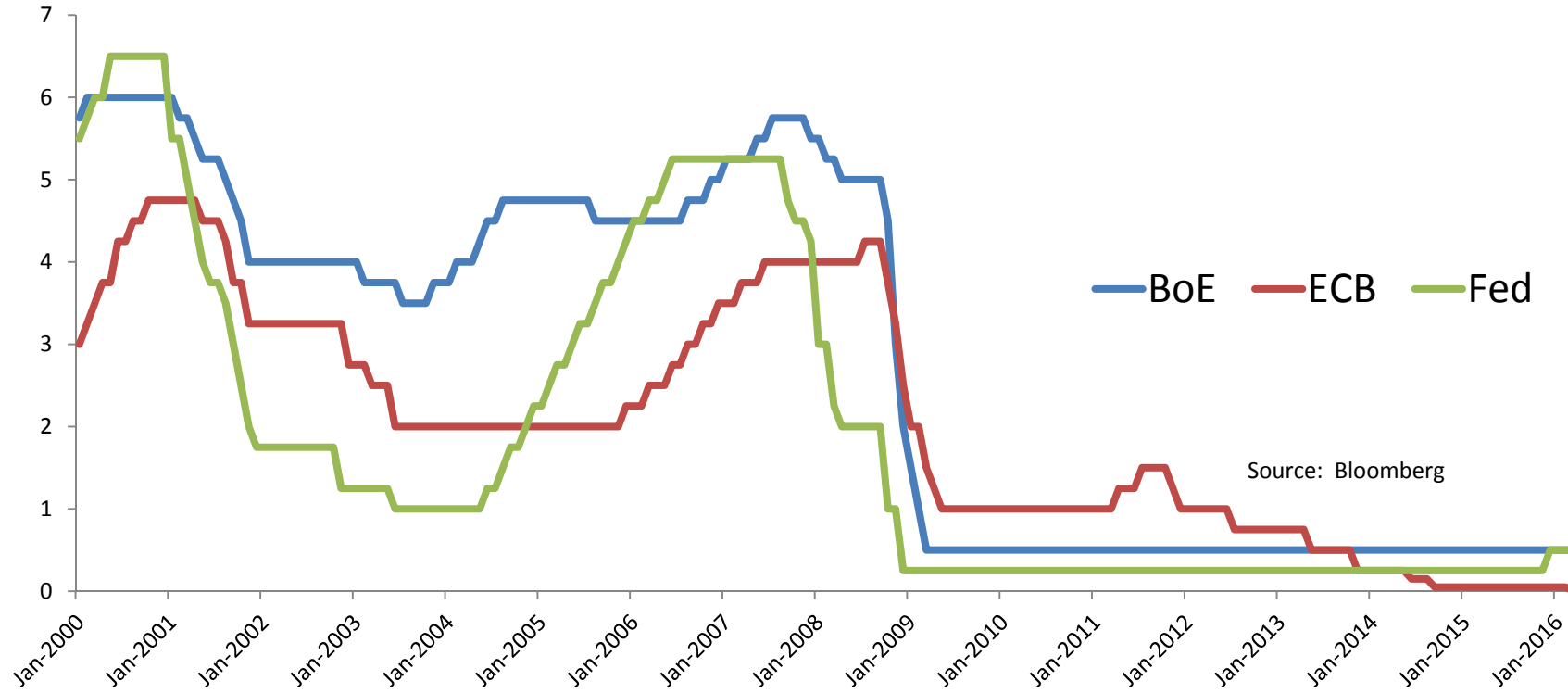
EUR vs USD



EUR vs GBP



Central bank policy



Other near-term drivers

- US election outcome and implications for US economy
- Speed of structural divergence in global rates
- Article 50 clarification and timing
- China economic growth

The quick basics

- At its simplest, currency hedging involves locking in the future exchange rate at which you can sell foreign assets and bring the money home into EUR
- With the future rate set, you aim to protect yourself from exchange rate fluctuations
- When the value of EUR rises, you want to be hedged
- When the value of EUR falls, you want to be unhedged

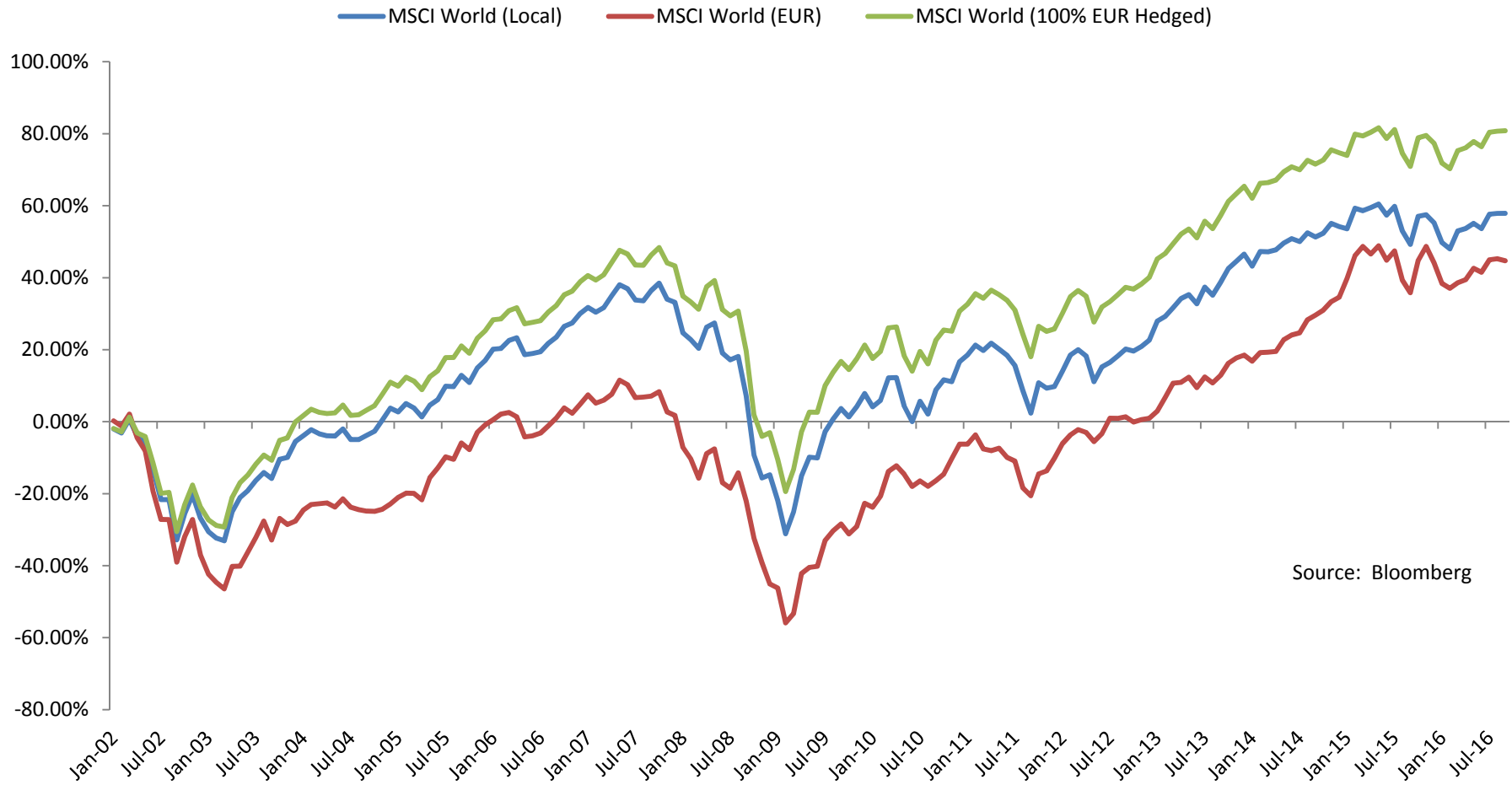
Risk management considerations

- Currency interaction with the wider portfolio
 - Underlying Asset Classes
 - Equities
 - Fixed Income
 - Illiquid Investments
 - Emerging Markets

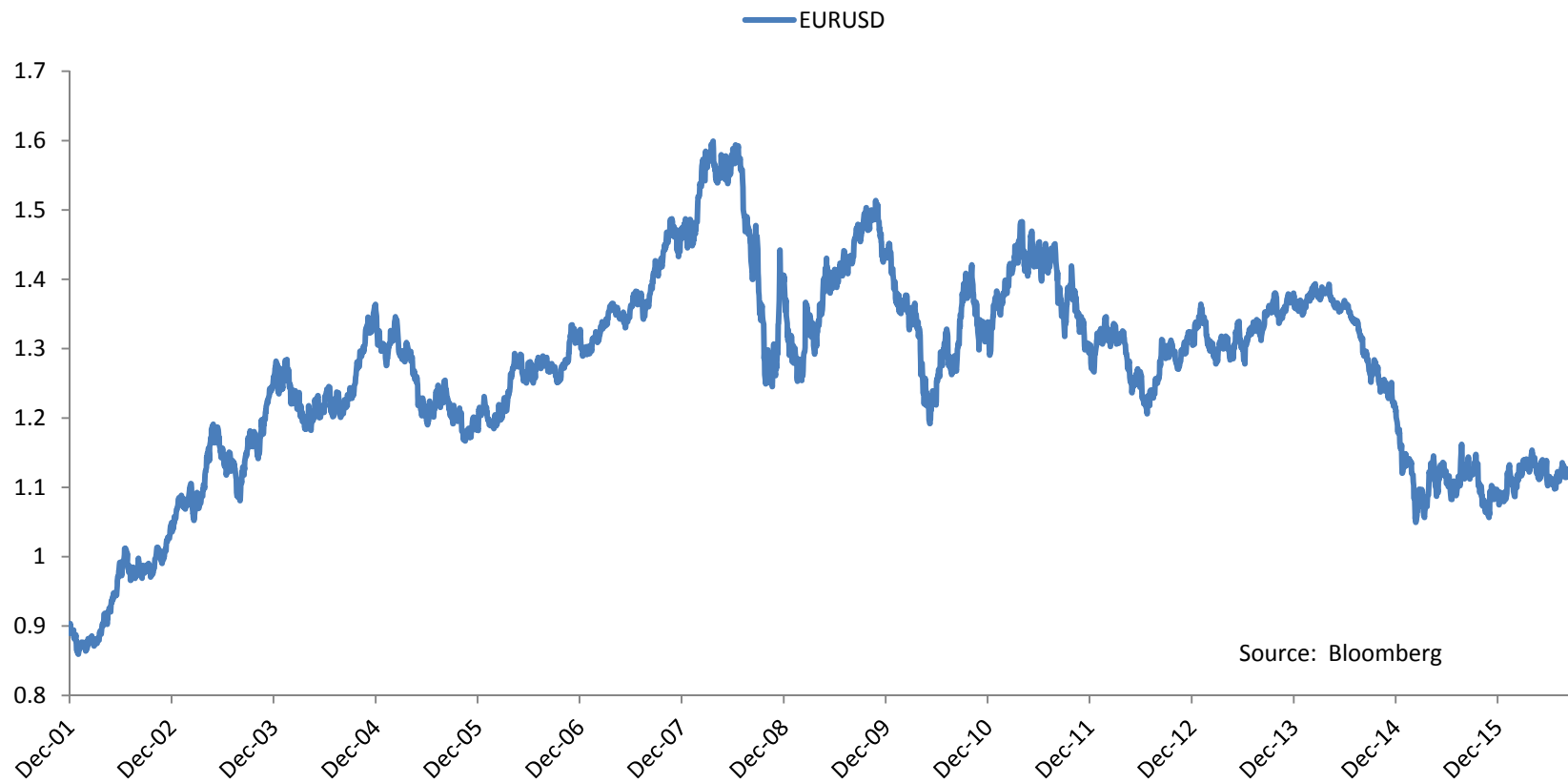
Currency risk management approaches

- Unhedged position (Do Nothing)
 - Currency risk not significant to the overall portfolio
 - Diversification benefits of unhedged position
- Passive Risk Management
 - Manage unwanted volatility, take advantage of long term structural bias
- Active Risk Management
 - Add to returns, adapt to changes, provide downside risk protection

Passive example



A quick active tour: Value, Trend & Carry



The market, upcoming regulatory reform

- The FX market is still the biggest market in town
 - Average daily turnover: \$5.1 trillion per day
 - Slightly smaller in size than 3 years ago
 - Less speculation, more hedging
 - Staffing levels on trading desks are smaller due to a combination of less speculation and more technology
- FX forwards in Europe (EMIR) will need to be collateralised
 - Currently March 2017
- MiFid II reporting is on the way and FX forwards will be a part of this as we push toward greater regulatory oversight, Currency managers will have to demonstrate their commitment to transparency

Final Thoughts

- Currency Wars
- The risk of competitive devaluations
- Volatility