

A new way to think about currency risk

Conscious Currency™

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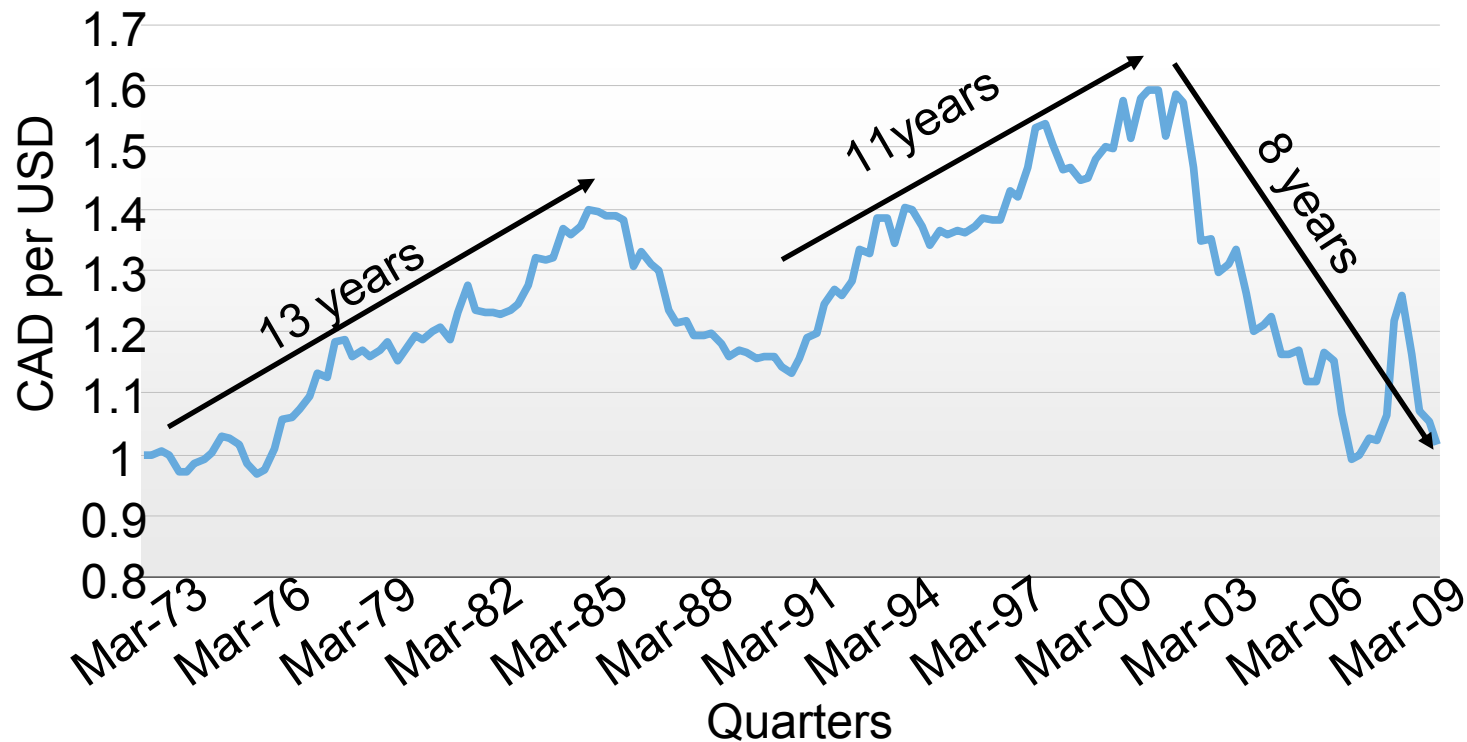
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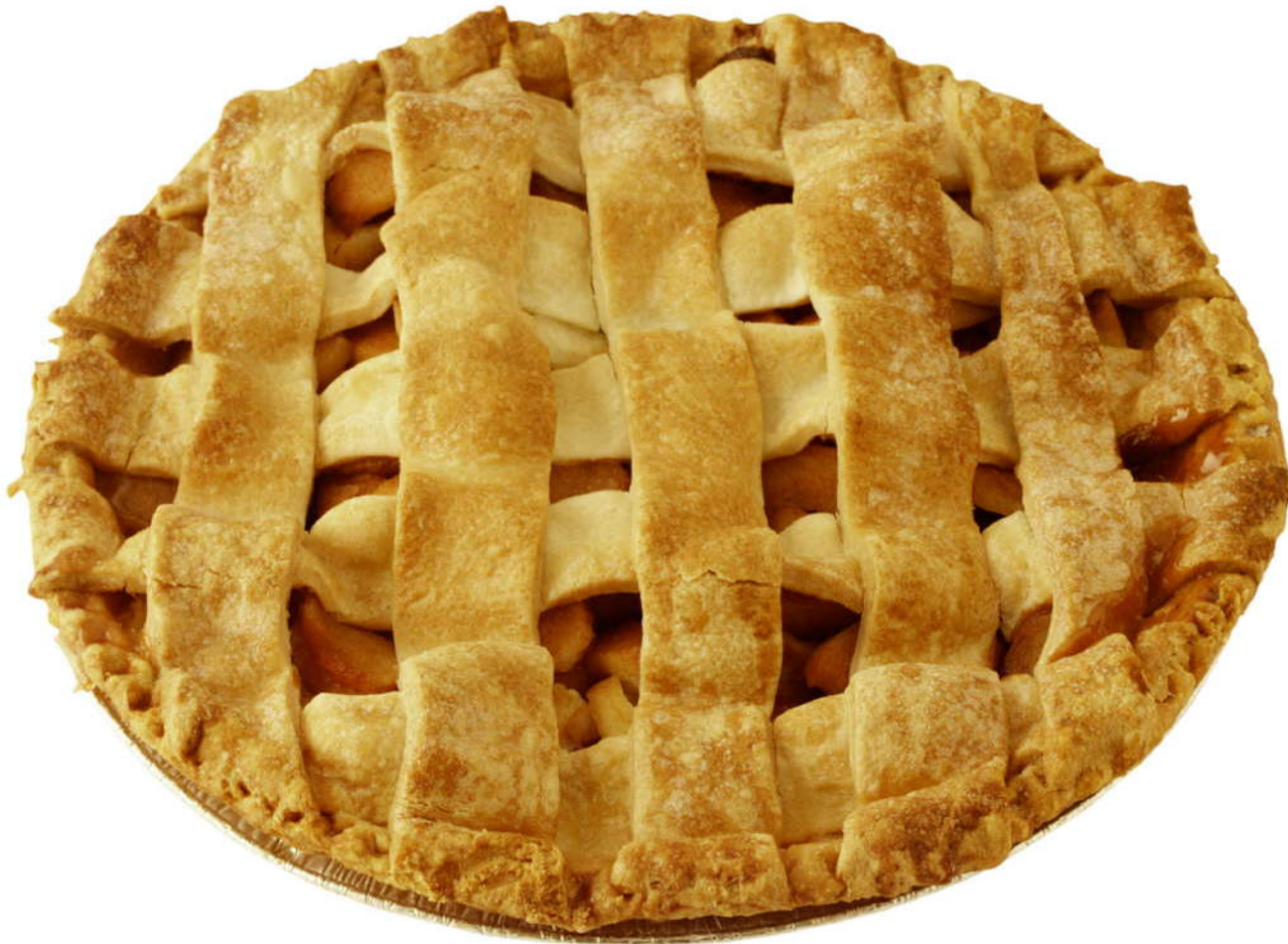
Why does this matter?



Currency volatility can be significant. Currencies can trend over long periods.
Currencies can stop trending quickly. Currencies are difficult to forecast.
This is a bad combination of features if you're exposed to currency...

Source: Bloomberg.
For illustrative purpose only.

Think of currency risk as pie



Source: microsoft.com.

What matters?

- A. HOW MUCH** pie will I eat?
- B. WHAT TYPE** of pie is it?
- C. CAN I CHOOSE** the type of pie?
- D. ALL OF THE ABOVE**



Of course, the correct answer is likely to be

Source: microsoft.com.

D.

How do we do this today?

Do I want to order the set meal – which includes pie (but we can't choose the type)?

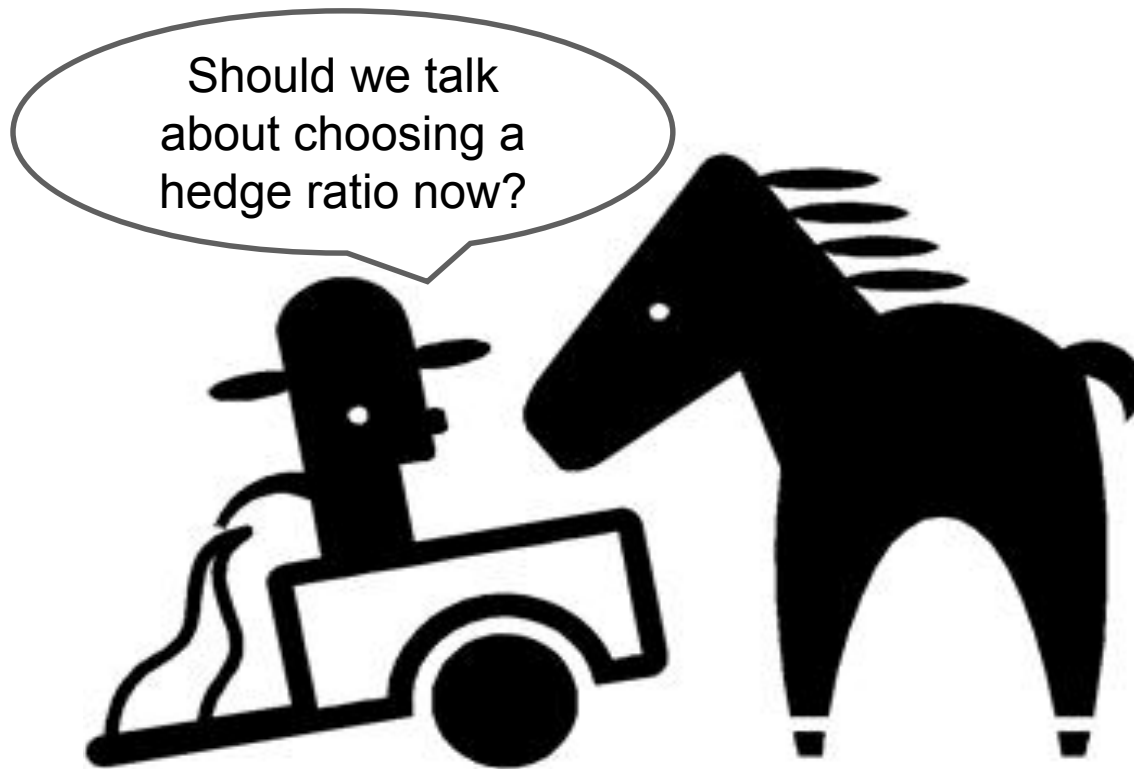
Which main course will I choose to have?

How much of the pie will I eat (and I have to decide this before I find out what type of pie it is)?

How do we do this today?

- **Decide if we want to invest abroad?**
 - Use tools to describe “abroad” that often include the behavior of the foreign asset and the behavior of the currency
 - Already we’ve likely got a particular definition of currency baked into the pie
- **Allocate to “abroad”**
 - Allocation is made using a benchmark which has currency baked into it: this sets the neutral bet
- **Decide whether or not to “hedge the currency risk”**
 - Focus on the amount – and done at the start of the time period concerned

In other words..



Is there a better way?

Source: microsoft.com.

A different approach

Decide what I want to eat, course by course

At the same time decide how much of each course I want to eat

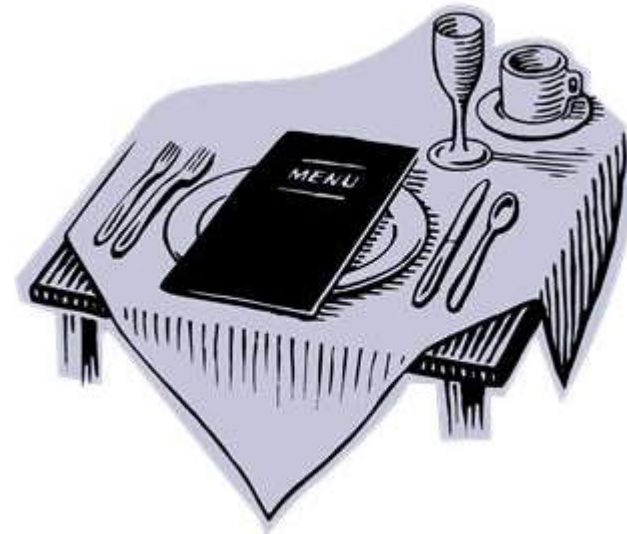
Decide about whether I want pie separately – and if so which pie

How could we do this instead?

- **Decide how to describe the different markets**
 - Only use tools to describe “abroad” that exclude the currency behavior of the foreign asset
 - Decide what benchmark best describes the behavior of the currency markets
- **Allocate accordingly**
 - Let FX exposure compete with others – if it’s attractive then allocate to it
- **“Hedging” is the wrong terminology**
 - We decide how much FX risk to take on it’s own merits – this isn’t hedging, but a decision to take on a particular exposure

A different approach

- Choosing each course separately means I get what I actually want
- I don't have to decide how much pie I'm going to eat before I know what it is
- But don't I get a discount for ordering from the set menu? Is it the same with currency?



Two ways to get currency exposure

Option ONE

Buy a portfolio of currencies with weights based on my other asset portfolios

This is what most investors do today. It involves **UNMANAGED ACTIVE** currency bets

Option TWO

Buy a portfolio of currencies with weights based on the structure of the currency market

This is the approach we describe as **Conscious Currency™**. It allows passive or active exposures



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