Currency Exposed

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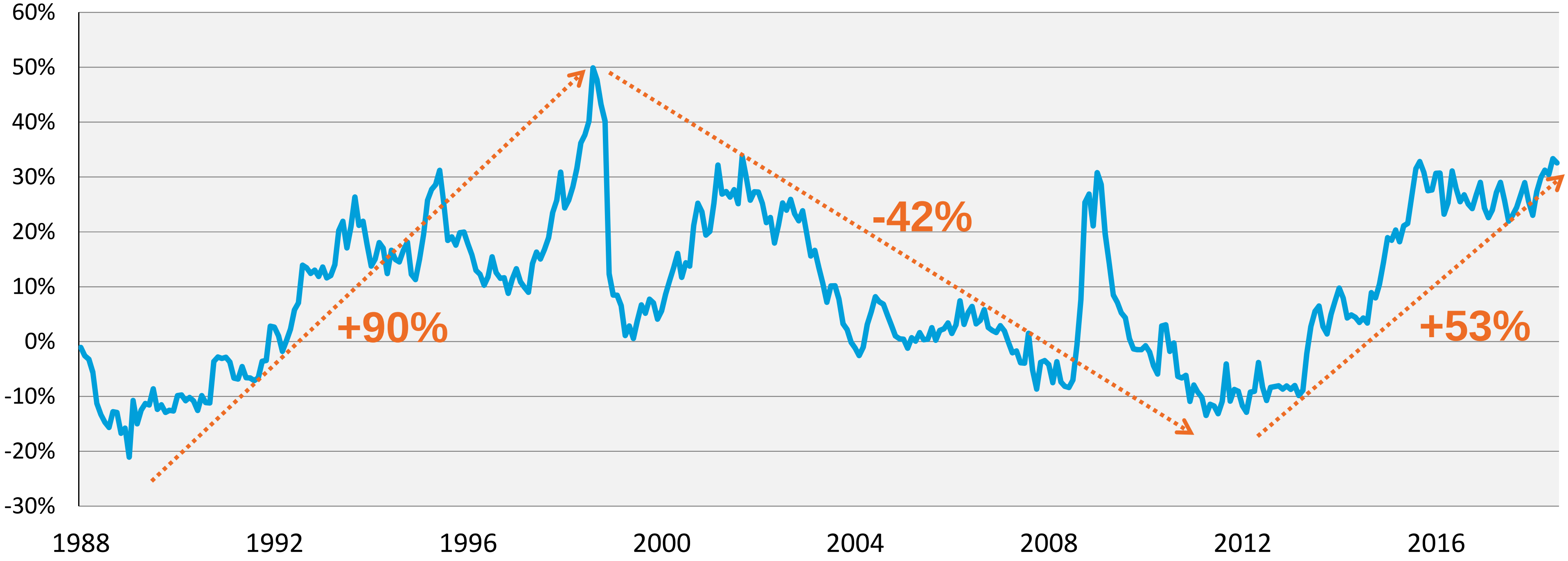
Currency is a Significant and Unintended Risk

- International exposures within the Australian superannuation industry are very significant and have increased over the past decade
- Developed markets currencies typically have no expected return over the long term. As a result, currency is an unintended risk that should be managed.
- Superannuation plans most often address this currency risk through passive hedging while maintaining some exposure to foreign currency for diversification benefits
  As a risk currency, the Australian Dollar possesses positive historical correlation to equity markets
- Post Global Financial Crisis, the positive carry that many Australian institutions receive through passive hedging has deteriorated with rising USD rates
- Alternative strategies and enhancements including constrained active hedging and other solutions are being evaluated in this context

Past performance is not indicative of future performance.

MSCI World ex Australia Currency Returns – AUD Base

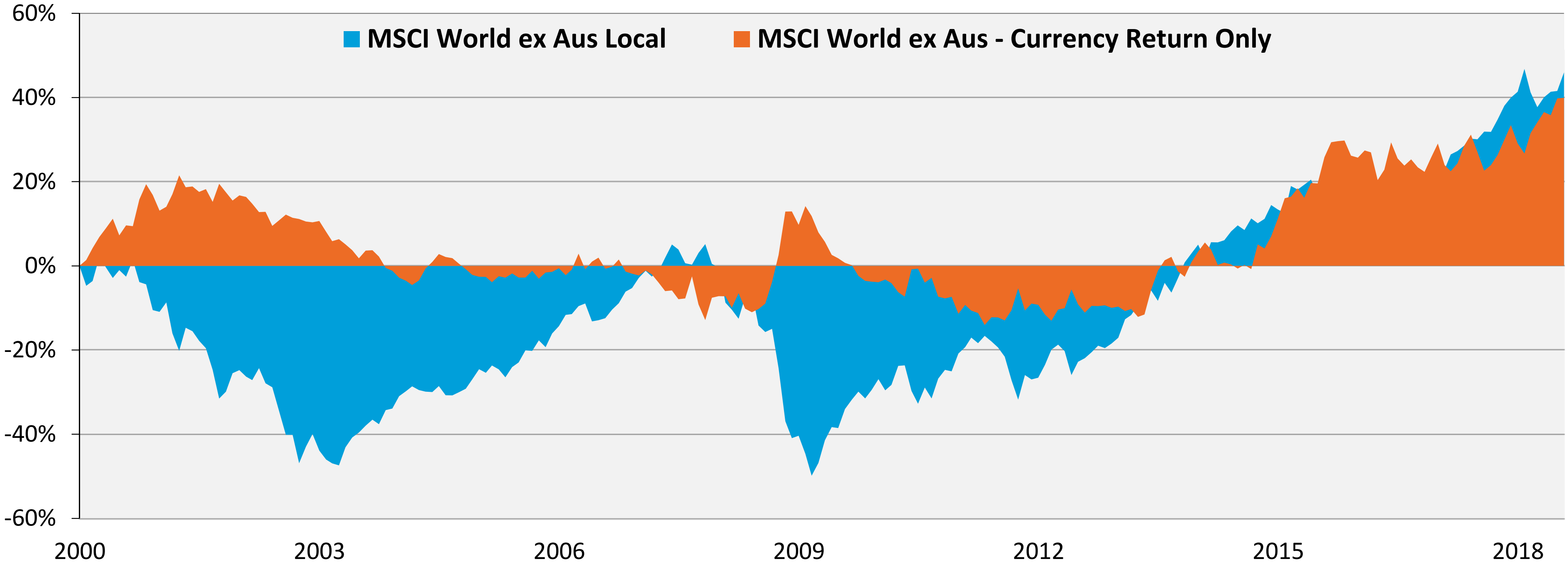
January 2000 – July 2018



Source: Bloomberg. Past performance is not necessarily indicative of future results. Actual results may materially differ from those shown above. This is for illustrative purposes only and represents a benchmark and not client activity. Please refer to the disclaimer page at the end of this presentation for important additional information.

MSCI World ex Australia Cumulative Returns

January 2000 – July 2018



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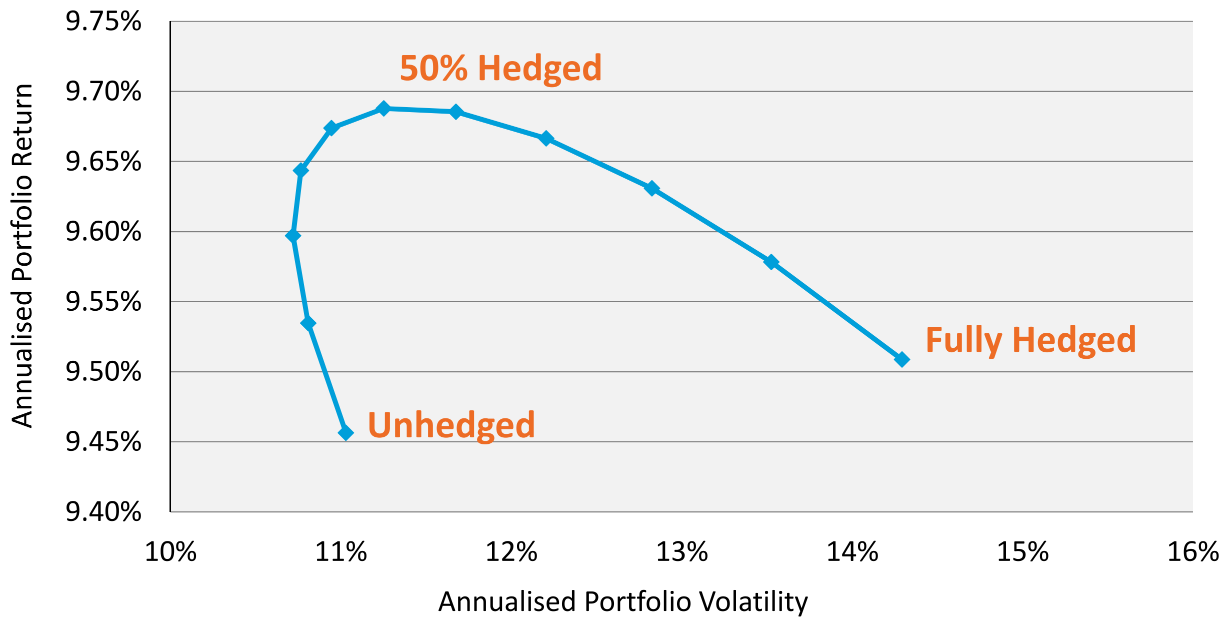
MSCI World ex Australia – Hedged vs. Unhedged

August 2008 – July 2018

	Unhedged	50% Hedged	100% Hedge
Cumulative Return	146.84%	152.11%	148.02%
Annualised Return	9.46%	9.69%	9.51%
Annualised Volatility	11.03%	11.25%	14.29%
Return-to-Risk Ratio	0.8573	0.8610	0.6653



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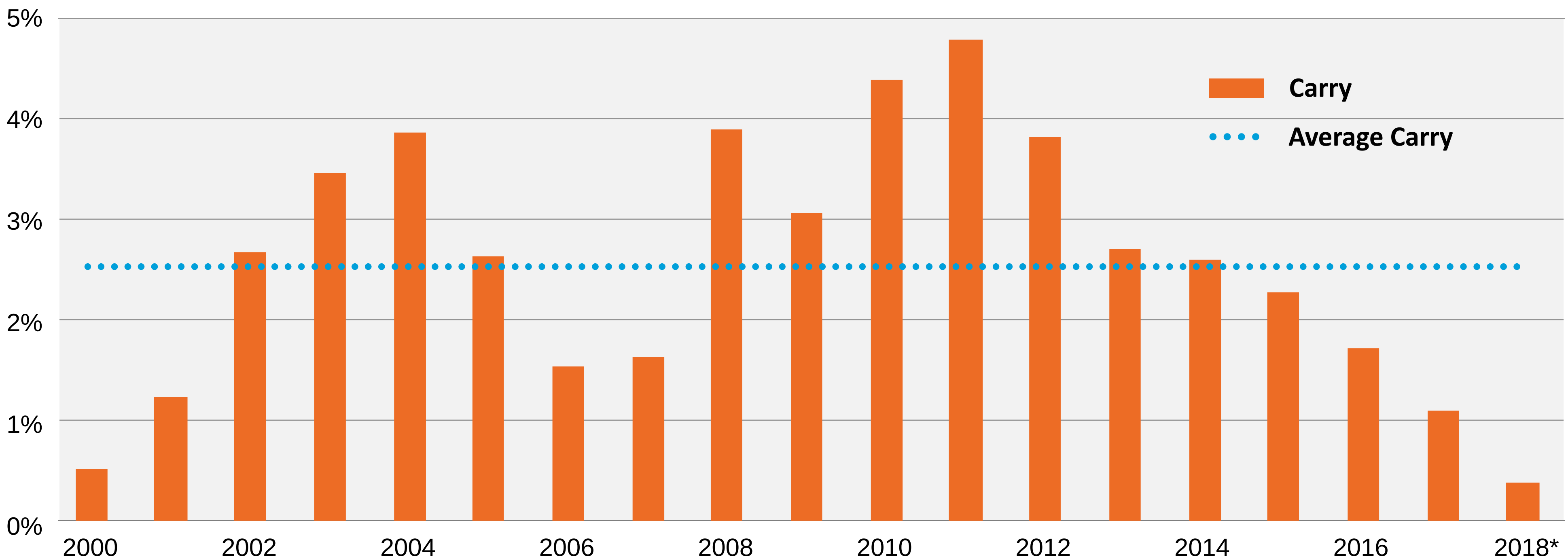
Annalised Carry*

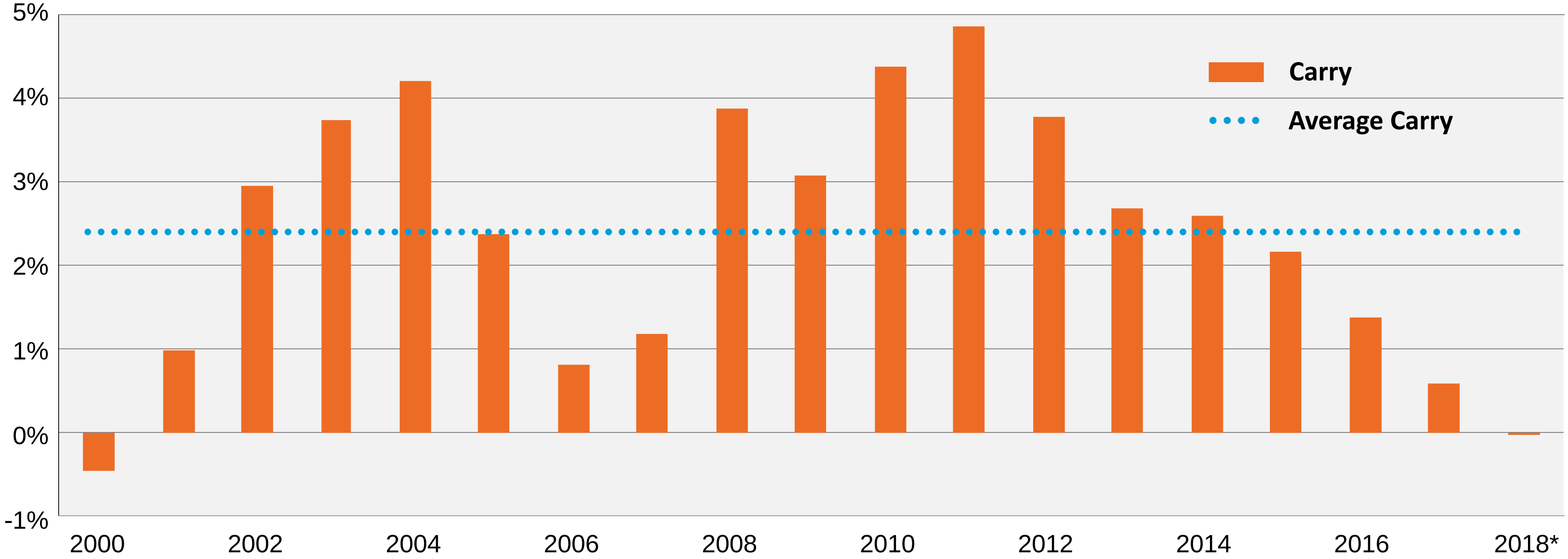
USD, EUR, GBP, JPY Composite



*Portfolio consists of USD, EUR, GBP and JPY based on weights of the MSCI World as of July 2018 normalized to 100 percent. Carry values calculated from historical spot and 1-month forward prices from Bloomberg. Past carry is not necessarily indicative of future carry. Actual carry may materially differ as it is a function of the interest rate differential present at the time. Please refer to the disclaimer page at the end of this presentation for important additional information.

Annualised Carry*

USD Only



*Portfolio consists of 100% USD. Carry values calculated from historical spot and 1-month forward prices from Bloomberg. Past carry is not necessarily indicative of future carry. Actual carry may materially differ as it is a function of the interest rate differential present at the time. Please refer to the disclaimer page at the end of this presentation for important additional information.

Alternatives to Address Currency Risk

Path	Hedging Levels	Benefits	Considerations
Passive Hedge	Typically applied with a static hedge (e.g. 50% on developed currencies); may be infrequently adjusted by investment staff or in partnership with consultants	Currency volatility is reduced; simple solution; low management fees	A static hedging approach does not capture currency movements; cash requirements for hedge settlement must be available
Hybrid Hedge Program	Static hedge coupled with infrequent hedge adjustments based on long-term currency valuation and other factors	Currency volatility is reduced and structural currency movements can be captured to add value; competitive management fees compared to the potential value add	Marginally higher cost management fees than passive; does not capture short or medium term currency movements
Active Risk Management	Dynamic hedging intended to capture currency movements over multiple horizons	May capture currency movements not addressed in passive or hybrid approaches; highest potential value add vs. passive and hybrid solutions	Manager selection; higher risk of loss through active risk management vs. hybrid hedging program; higher relative management fees
Tenor Management	Hedging levels remain the same as a Passive Hedge	Potential incremental value added by optimizing tenor related carry	Cash flow volatility resulting from changing tenors; potential large cash flows in comparison to consistent tenor structure
Fiduciary FX	Asset owners and managers engage a fiduciary agent to trade FX	Lower FX costs compared to traditional principal trading; trade through a central desk to realize netting and competitive pricing benefits	Operational interface with Fiduciary FX provider should be managed with appropriate controls and procedures

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