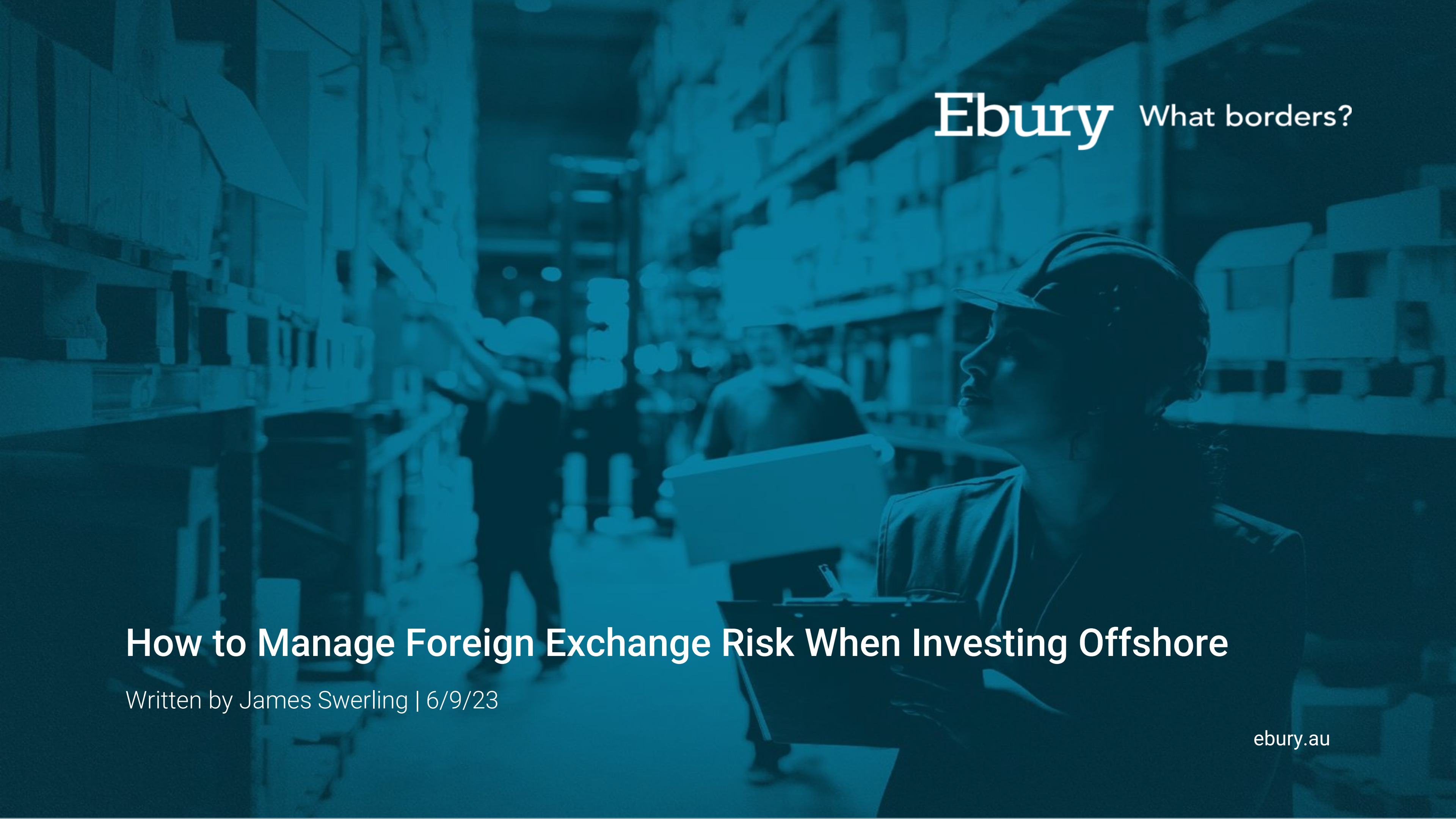


Ebury What borders?

How to Manage Foreign Exchange Risk When Investing Offshore

Written by James Swerling | 6/9/23

ebury.au

Agenda

- FX market risks associated with transactions in overseas currencies.
- Consequences of unmanaged FX positions on investor outcomes / returns.
- Measures and tools to utilise in order to mitigate FX risk.
- Timeline for identifying needs, establishing facilities and executing transactions in line with the underlying acquisition / investment.
- FX and interest rate market drivers / outlooks.

FX market risks associated with transactions in overseas currencies

1. **Foreign Exchange Risk**
   Movements in currency between asset purchase / disposal

2. **Interest Rate Risk**
   Change of interest rates in both origination and destination countries from acquisition date to disposal date

3. **Slippage**
   Variations between buy / sell rates and timing differences

Consequences of unmanaged FX positions on investor outcomes / returns

- Funds and investment schemes can be hedged or unhedged
- Valuations and returns of unhedged assets are subject to foreign exchange rate movements
- Typical AUD movement against TWI (Trade Weighted Index) is 15% per annum
- In the last four years AUDUSD has swung in a 45% trading range
- Variable Monthly / Quarterly Coupon payments subject to market movement

Measures and tools to utilise in order to mitigate FX risk

1. **Foreign Exchange Risk**
   Movements in currency between asset purchase / disposal

2. **Interest Rate Risk**
   Change of interest rates in both origination and destination countries from acquisition date to disposal date

3. **Slippage**
   Variations between buy / sell rates and timing differences

Timeline for identifying needs, establishing facilities and executing transactions in line with the underlying acquisition / investment

1. Map out the flow of funds
2. Onboarding AML Legals
3. Forward credit facility
4. Obtain in-country bank accounts
5. Set FX rates
6. Deal and payment execution

Banking & Finance Industry Insights

- As insolvencies have accelerated, banks and lenders have reclassified the building and construction industry as high risk.
- Trade Finance and unsecured lenders have pulled back lending lines from small and medium sized businesses who resell into the construction industry.
- Importers of building materials (cladding, scaffolding, lifts, etc) have been impacted by these changes.
- Aged debtors and creditors balances have grown consistently on the balance sheets of such companies.
- At the larger end, Real estate funds have come under scrutiny at Australian banks, particularly those backed by debt.

AUD

- **Materials and energy industry activity:** 19% of direct Australian GDP; 40% of total AU investment; 70% of AU goods exports.
- **Global growth:** Strong prospects for global growth raises demand for materials which results in higher materials prices.
- **Volatility in financial markets:** Created by uncertainty over economic growth outlooks as a result of black swan events.
- **Risk:** In black swan events shares, materials and ‘risk currencies’ are sold in favour of bonds and ‘safe-haven currencies’.

USD

- **Federal Reserve action:** The US interest rate dictates global borrowing costs. 60% of all outstanding debt is issued in USD.
- **US economic fundamentals:** The Fed sets interest rates to control inflation (40 year high) and unemployment (22 year low).
- **World reserve currency:** USD accounts for 55% of FX reserves and 41% of international payments. Both higher since 2019.
- **Inflation hedge:** Assets that investors buy as a store of value in uncertain times are denominated in USD (gold, crypto..).

NZD

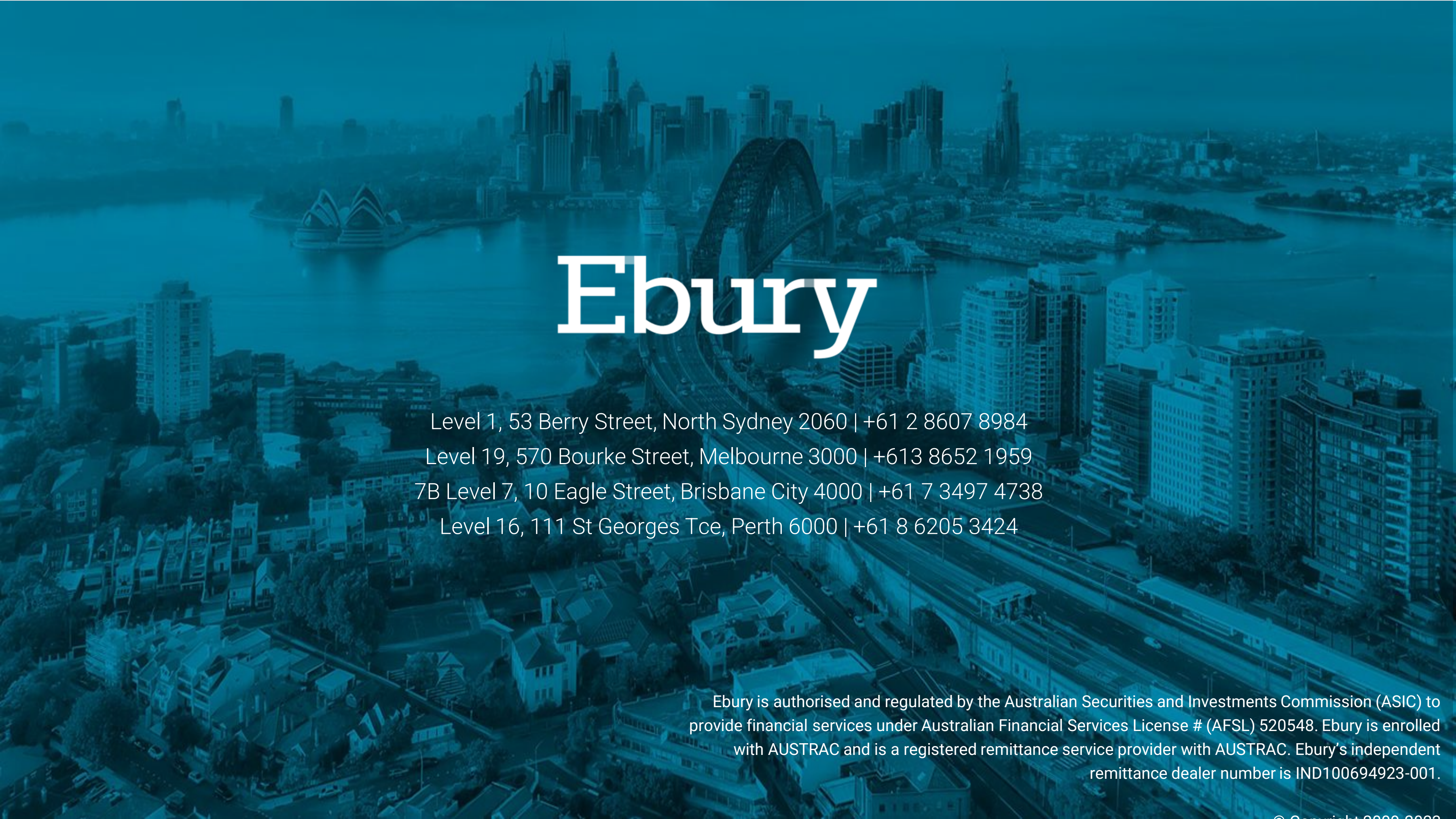
- **Tourism:** Visitor numbers to New Zealand rose by 55% in the decade to Dec ‘19. Contributes 9.3% of GDP and 8.4% of jobs.
- **Dairy prices:** 8th largest milk producer and comprises 23.5% of total NZ exports. Weekly milk auctions are closely marked.
- **Carry trade:** The Reserve Bank of New Zealand has the highest interest rate in the G10 (1%) making NZ securities attractive.
- **Geography:** New Zealand’s isolation makes it the ideal store of value in times of geopolitical strife (Covid; Ukraine; etc).

16%

AUD/USD trading range
last 12 Months

11%

Typical 6 month
trading range



Ebury

Level 1, 53 Berry Street, North Sydney 2060 | +61 2 8607 8984
Level 19, 570 Bourke Street, Melbourne 3000 | +613 8652 1959
7B Level 7, 10 Eagle Street, Brisbane City 4000 | +61 7 3497 4738
Level 16, 111 St Georges Tce, Perth 6000 | +61 8 6205 3424