TGM Dynamic Currency Overlay

The Investment Manager

Tactical Global Management (TGM) provides tailored investment solutions for clients including rebalancing and currency hedging overlays, systematic global macro and currency alpha strategies, and a low volatility equities strategy. We manage over $30b across our investment products, including execution services, using exchange traded futures, options, ETFs, swaps and forward foreign exchange contracts. TGM is also supporting and promoting Sustainable Impact Investing opportunities in both Australia and developing countries. We have extensive experience in managing investment programs for institutional clients globally including pension funds, insurance companies, fund managers, banks, endowments, and charities.

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Investment Objective

Investing in overseas assets creates a currency risk exposure for the portfolio. A key decision for a client is to determine an appropriate target or strategic hedge ratio to either accept or mitigate the currency risk. TGM's Dynamic Currency Overlays add value by dynamically adjusting the individual currency hedge ratios around the client's target ratio based on currency forecasts while controlling for volatility.

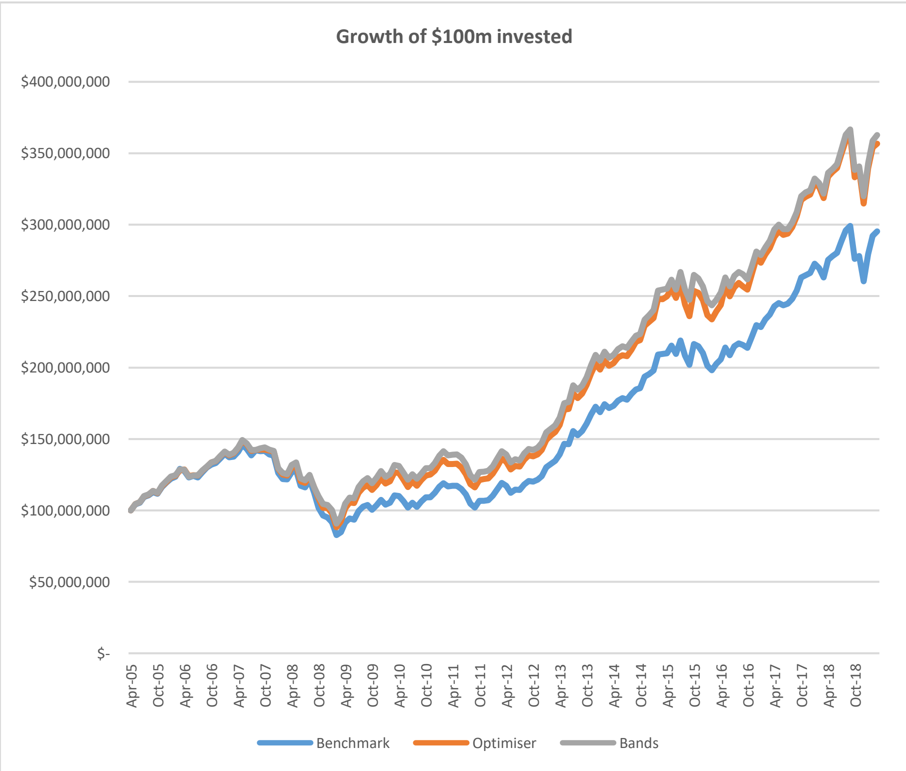
Investment Strategy

TGM's Dynamic Currency Overlay process uses proprietary quantitative models for forecasting currencies combined with volatility and momentum indicators to dynamically adjust currency hedge ratios relative to the client's target hedge ratio levels, to generate additional risk adjusted returns.

TGM offers two approaches of its Dynamic Currency Overlay process. The first was developed in response to clients having **bands** set with target levels for the currency and once they are hit for a new hedge ratio to be implemented. The second is to use an **optimiser** that results in more frequent incremental risk-adjusted changes in hedge ratios.

Performance[1]

	Benchmark[2]	*Optimiser[3]*	*Bands[3]*
1 month	1.05%	**0.27%**	**1.10%**
3 months	13.35%	**13.31%**	**13.31%**
6 months	-1.30%	**-1.63%**	**-1.07%**
1 year	12.19%	**11.90%**	**12.78%**
3 years (p.a.)	13.40%	**14.22%**	**13.61%**
5 years (p.a.)	11.45%	**12.12%**	**11.88%**
10 years (p.a.)	13.40%	**14.46%**	**14.27%**
Annualised Return[4]	8.04%	**9.51%**	**9.64%**
Annualised Volatility[4]	11.20%	**11.35%**	**11.08%**
Return/Risk Ratio[4]	0.70	**0.84**	**0.87**



[1] The performance numbers are total returns in that they include both equity and currency return components. The returns are net of transaction costs but gross of management fees. Note that the performance numbers are based on out-of-sample currency forecasts from TGM's dynamic currency overlay process.

[2] MSCI World ex Australia Net Total Return Index, hedged at 50% AUD.

[3] These are total returns in that they include the underlying equity market return (MSCI ACWI ex Australia Gross Return Index) plus the AUD currency hedge return. The returns are net of transaction costs but exclude management fees. Note that the performance numbers are based on out-of-sample currency forecasts from TGM's current currency process.

[4] Return numbers are for the period April 2005 to March 2019.

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Investment Process

TGM's Dynamic Currency Overlay process uses proprietary quantitative models for forecasting currencies combined with volatility and momentum indicators to dynamically adjust currency hedge ratios around the client's target hedge ratio levels and generate additional risk adjusted returns.

The investment process incorporates the following features:

- Combination of Macroeconomic Fundamental and Valuation models;
- Dynamic allocation of weights between the models depending on the regime; and
- Momentum indicators are incorporated resulting in an asymmetry that enhances risk-adjusted returns.

TGM's dynamic currency overlay investment process also captures mechanisms that tend to improve portfolio returns at times of falling international equity markets, thereby reducing return drawdowns associated with investing in international equities.

Portfolio Construction

Two approaches to portfolio construction are offered, namely using an optimiser and a bands approach. Both approaches produce similar results over the longer run, the key difference being the optimiser generates continuous smaller incremental changes to the strategy and the bands approach larger less frequent discrete changes.

Dynamic Currency - Optimiser

Portfolio construction is based on a proprietary optimisation process that determines the optimal hedge ratio to improve the return/risk profile of the underlying fund, relative to the benchmark hedge. This approach is characterised by continually adjusting the hedge ratios across the portfolio to optimise returns whilst controlling risk.

Dynamic Currency – Bands

Portfolio construction is based on hedge ratio bands strategically set to capture deviations relative to forecast fair value. This approach can be configured to work for a variety of client target or benchmark hedge ratios. The Bands approach captures movements in the underlying currency relative to its fair value. As the currency reaches fair value, the hedge ratio converges to the client's target hedge ratio.