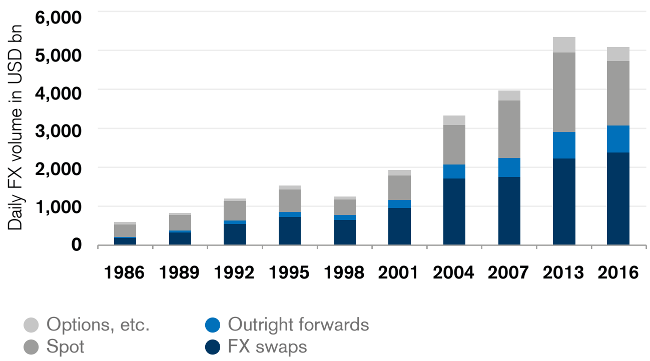
Currency Management Solutions
Ever More Important

The increased globalization of investment portfolios and the large exchange rate movements generated by diverging monetary policies in major currency areas have increased currency hedging activities in the Forex markets. However, regulatory changes have caused a reduction in the number of dealer banks willing to warehouse risk, leading to a decline in market depth and functionality. As a result, effective currency risk management is becoming more important than ever.

With the introduction of MiFID II from 2018, financial institutions will be required to achieve and demonstrate best execution using pre- and post-trade transaction cost analysis (TCA). Increased demand for transparency and documentation is likely to favor electronic trading systems. This could bring lower spreads in stable market conditions, but it could also further reduce risk absorption capacity when market conditions deteriorate. Traditional ways of conducting foreign exchange (FX) transactions may no longer be optimal and the ability to monitor and access the Forex markets – worth USD 5 tn a day – in the best possible way will become ever more important.

Growth in currency market trading by instrument



Source: *BIS Triennial Central Bank Survey 2016*

For example, changes in liquidity conditions could have consequences for both market risk and the effectiveness of the hedging strategies used by investors.

Why delegate currency management?

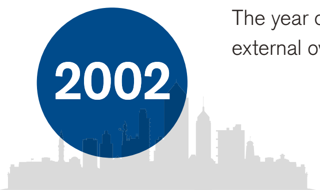
A separate currency overlay can provide significant cost saving synergies while also eliminating operational risks. Due to the strong Swiss economy, the Swiss franc has generally appreciated against other currencies, in particular during periods of crisis. For that reason, most Swiss investors have found it favorable to hedge a significant proportion of their FX exposure.

At Credit Suisse Asset Management, our unique combination of global knowledge, in-depth local market expertise and state-of-the-art systems and processes allows us to offer value-added solutions for all our clients' currency needs, including active and passive hedging. Competitive fees and low minimum thresholds also make our solutions attractive for smaller mandates.

A client-focused approach

We partner with our clients to design and implement a best practice currency management solution and execution setup tailored to their individual requirements and circumstances. Specialized currency management risk systems and tools enable detailed, highly automated and efficient management of all foreign currency exposures and FX transactions with minimal operational risk.

We help reduce cost and improve transparency of execution, not just at the time of execution but also for the portfolio as a whole. Our local presence and proximity to our clients enable us to build close partnerships based on a strong client service platform.



The year of our first external overlay mandate

In currency exposures under management

Average amount of experience (in years) in our dedicated Currency Management team

Total number of currency specialists

Source: Credit Suisse. Data as at 30.06.2017

> There is significant scope for an overlay manager to improve on the implementation of a passive currency hedging program."

Currency management solutions

Passive: Currency hedges are maintained and adjusted in line with client guidelines and the currency exposure of the underlying assets. MiFID II-compliant trading and reporting capabilities ensure competitive execution tailored to individual client requirements.

- **Share class hedging:** implementation and execution service; seeks to minimize tracking error and reduce cost.
- **Portfolio hedging:** value-added hedging and rebalancing strategy designed for individual client needs.

Active: we also offer risk-reducing or return-seeking strategies designed to meet client objectives.

- **Rule-based hedging:** systematic adjustment of strategic hedge ratios based on factors that have influenced FX rates in the past. For example, our rule-based hedging strategies provide an intuitive link between hedging cost, valuation and hedge ratio for Swiss-based investors.
- **Active hedging:** discretionary management of hedge ratios within a given bandwidth (around the benchmark hedge ratio) based on "fair value" estimates, the behavior of exchange rates through the economic cycle, sentiment indicators and technical analysis.
- **Currency for return:** rule-based or discretionary strategies tailored to client objectives.

Professional execution

An open execution platform enables us to respond to each client's specific execution and reporting requirements, including their individual choice of broker(s). To ensure continuous improvements, the team regularly checks the quality of execution through independent TCA. Further, significant cost savings can often be achieved by separating and optimizing the currency hedging process from the underlying mandates. A specialist approach to rebalancing strategy, tenor and cash flow management can yield significant performance improvements.

An integrated service

Our currency overlay solutions are offered in conjunction with other Credit Suisse Asset Management services, for example with custody services or Credit Suisse mandates and funds. In this way, the client receives everything from a single source: as a global custodian, Credit Suisse provides an up-to-date overview of all positions, valuations and cash flows in the accounts and depots on which the overlay mandate is based. Clients of Credit Suisse Custody also have the possibility of coordinated overlay and custody reporting.

Do you have any questions?

Please get in touch. We will be delighted to help.

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