



## Action

If you are considering investing in the international sharemarket you may like to speak to a financial planner about an investment strategy that is right for you. A licensed financial planner can review your personal circumstances and advise you on the most appropriate steps to take as well as the investment options that may suit you best.

Before you make any decisions about investing your superannuation you should consider whether it is appropriate to your objectives, financial situation and needs. We recommend that you consider the *PDS* for your superannuation fund before making any decision. We also recommend that you speak to a licensed financial planner if you need help in making an investment decision.

The information contained in this guide only provides general information about currency risk and does not take into account your personal objectives, financial situation and needs.



## Did you know...

As a member of the Plum Superannuation Fund you have access to financial planners on the AdvantEdge ActivePlan panel. AdvantEdge ActivePlan is a service provided by GWM Adviser Services Limited (GWMAS) ABN 96 002 071 749 AFSL 230692 through an agreement with PFS Nominees Pty Ltd as trustee of the Plum Superannuation Fund. GWMAS, the Trustee and Plum Financial Services Limited are part of the National Australia Group of companies.

If you would like more information about AdvantEdge ActivePlan or would like to access this service contact a Plum Member Services Consultant on **1300 55 7586**.

## Contact us for more information

If you would like a copy of the *PDS* or want further information, visit the *Member* section of the Plum website:



**www.plum.com.au** or email us at **service@plum.com.au**, or



speak with a Plum Member Services Consultant on **1300 55 7586**.

The information in this guide is of a general educational nature and has been prepared by Plum Financial Services Limited (Administrator) ABN 035 081 812 731 AFSL 243356. Neither PFS Nominees Pty Ltd (Trustee) ABN 16 082 026 480 AFSL 243357 RSE L0002912, the Administrator nor any other member of the National Australia Group of companies accepts responsibility for the opinions, comments and analysis contained in this document. Any advice contained in this guide is general in nature and does not take into consideration an individual's objectives, financial situation or needs. Before acting on this information you should consider whether it is appropriate to your objectives, financial situation and needs. We recommend that you consider the *PDS* for the Plum Superannuation Fund before making any investment decisions.

The information in this guide is current as at 15 June 2007. Any changes in the law or policy subsequent to this date have not been incorporated.

## Guide to currency risk



# Guide to currency risk

**Investing in the international investment market carries with it currency risk. That is, it is affected by exchange rates. Exchange rate movements have the effect of increasing or decreasing Australian dollar denominated investment returns. The aim of this guide is to provide a basic understanding of currency risk and its impact on international investments.**

## Risks of investing internationally

Like all shares, international shares are growth assets and as such can vary in value. As international shares are held in the currency of the country that they are invested in, they are also affected by exchange rates. This exposure to exchange rates is known as currency risk. This currency risk can increase or decrease Australian dollar denominated investment returns. So if you have your super invested in an international investment option, currency fluctuations may impact your super fund's overall level of return.

For example, if you hold international shares you may be adversely affected by a strengthening Australian dollar against other international currencies. Let's look at the effect that a rising and falling Australian dollar could have on shares held in US dollars.

Let's say you buy US\$1,000 of a company's shares when the Australian dollar buys 70 US cents. This purchase will cost you A\$1,428.57.

- If the Australian dollar rises from 70 US cents to 75 US cents and the share price in \$US is unaltered, then the value of those US shares is now A\$1,333.33. This represents a 6.67% loss, even though the share price in \$US has not altered.
- If the Australian dollar falls from 70 US cents to 65 US cents and the share price in \$US is unaltered, then the value of those US shares is now A\$1,538.46. This represents a 7.69% return, even though the share price in \$US has not altered.

The example shows that a rising Australian dollar has the effect of reducing returns to Australian investors. This is because overseas assets, if converted to cash in local currencies, would buy less Australian dollars than before. Conversely, a falling Australian dollar has the effect of increasing returns to Australian investors. The reason for this is because an Australian investor's overseas assets, if converted to cash in local currencies, would buy more Australian dollars than before.

Some international share funds use hedging to manage this currency risk. You may wish to use a hedged international share fund if you are confident in the ability of an investment manager to pick stocks, or in the performance of the underlying assets, but do not want the returns subjected to exchange rate fluctuations. As a member of the Plum Superannuation Fund you have a choice between hedged and unhedged international investment options.

## 'Hedged' investments

Hedging is often used to protect against a particular type of loss such as one that may be experienced with a movement in exchange rates. Although hedging may reduce potential losses it could also reduce potential profits. Typical hedging involves the use of derivatives and other strategies. A fund manager that uses hedging may either fully hedge their portfolio or partially hedge their portfolio. A fully hedged fund may reduce or virtually eliminate the impact of currency fluctuations. As a general rule, the returns on a hedged fund will more closely reflect the return of the actual investments themselves than would an unhedged fund as there is a much smaller currency impact on the overall return.

For further information about the hedging policy of various investment options available through the Plum Superannuation Fund refer to the Product Disclosure Statement (PDS).

## 'Unhedged' investments

Fluctuations in the Australian dollar relative to the underlying foreign currencies used in overseas investments will influence returns in all unhedged international share funds. This is because returns for international investments must be converted from their local currency to Australian dollars. An example of this is where a British investment fund provides a dividend to an Australian investor. This dividend needs to be converted from Pound Sterling into Australian dollars. Other things being equal, a falling Australian dollar increases the Australian dollar value of your international investments (you will receive more Australian dollars for each Pound Sterling). Conversely, an appreciating Australian dollar reduces the value of your international investments (you will receive fewer Australian dollars for each Pound Sterling).

An unhedged investment fund's return is influenced by the return on the underlying investment market, but also by the movement in exchange rates.

## Keeping it in perspective

The currency risk of international investments should be kept in perspective. Firstly, by investing across a range of countries with different currencies, that is, by diversifying your investments, the overall currency risk is diminished through diversification. For example, the Australian dollar may be strengthening against a major currency such as the Japanese yen at the same time it is falling against the US dollar. Secondly, over longer periods of time such as ten to twenty years, the impact of currency can be overshadowed by the underlying changes in the sharemarkets.

The risks inherent in international shares suggest that a concentration in this asset class would not be suitable if you have a short-term investment horizon. It may also be inappropriate if you cannot tolerate fluctuations in the market value of your portfolio.