

## Understanding the impact of currency risk

Exposure to foreign exchange movements goes with the territory – if you want to benefit from a diversified portfolio offering access to UK and global equities, bonds, or alternative assets. Swings in currencies can however significantly impact portfolio returns, positively as well as negatively, when translated back into British Pound terms.

They are very difficult to predict, particularly over shorter time periods, when market sentiment can move rapidly based on changing economic fundamentals. Over the longer term though, the effects of currency movements often tend to even themselves out.

Several asset managers do consider currency movements to be an important part of their tactical asset allocation and currency hedging decisions. Others however avoid trying to second guess the vagaries of foreign exchange markets and instead take a more strategic perspective, relying on a broad mix of currency exposures in their portfolios to even out fluctuations longer-term.

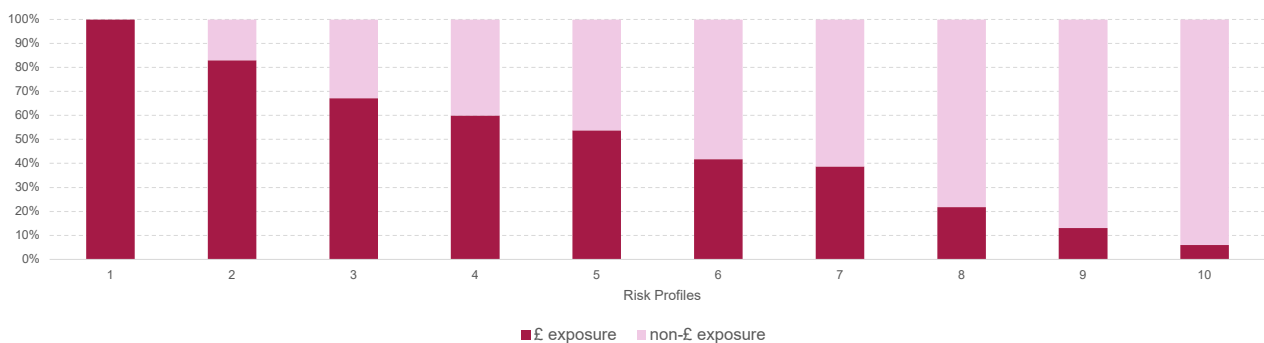
### The full implications of shifts in currencies can be hard to understand...

- ▶ We tend to focus on the face value of a currency, not taking into account its real worth. This can be even more challenging for a 'home' currency that we are familiar with and emotionally attached to, as we perceive movements to be more extreme. This has a greater effect on how we feel.
- ▶ At an overall portfolio level, by investing in a selection of larger UK-based companies with significant business overseas, well over 70% of the revenue generated is earned in foreign currency, if viewed across the average of the FTSE-100 index. The opposite to this would be investing in medium or smaller sized companies who are typically mostly exposed to the domestic economy and currency.

**At Dynamic Planner, each benchmark asset allocation is carefully constructed to balance long term return expectations in line with investor risk tolerance.**

- ▶ For the **LOWER RISK** benchmark allocations, there is greater emphasis on assets such as UK government bonds and UK equities, plus the added diversification of money market deposits. The overall currency exposure is therefore mainly attributed to the British Pound, thereby reducing the level of foreign exchange related portfolio volatility.
- ▶ For the **MEDIUM** and **HIGHER RISK** benchmark allocations, a more global perspective is adopted and as a result, the greater opportunity to benefit from currency diversification. The higher the risk, the greater the exposure to non-UK assets and currencies.

**Currency exposure - 2022 benchmark allocations**



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