# Monthly economic e-news

## June 2011

**‘The Australian dollar appreciated by 26% over the last financial year, the largest annual rise since our currency was floated in 1983.’**

**Craig Turnbull**
Chief Investment Officer

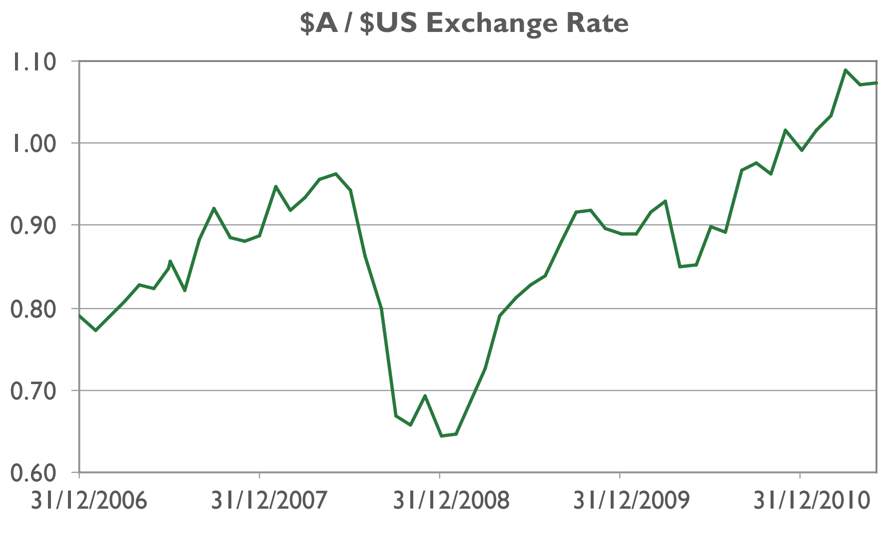
## Hedging against the rising Australian dollar

Share markets were weaker in June but managed to stage a partial recovery on the confirmation of the latest financial rescue instalment for Greece. This takes the return on Australian shares, including dividends, to 11.7% over the last financial year.

International shares also had a good financial year but due to the strong rise in the Australian dollar, the one-year return in Australian dollars was only about 1.4%.

### Historical rise in the value of the Australian dollar

The Australian dollar appreciated by 26% against the US dollar over the last financial year, the largest annual rise since our currency was floated in 1983.



The value of the Australian dollar is a consideration for our investment portfolio as we hold a variety of offshore investments including:

- International Shares
- Global Listed Property
- International Fixed Income
- Illiquid Investments
- Absolute Return

As the Australian currency can be volatile, and we have a lot of international investments, we are careful to effectively hedge our currency exposure.

## What is currency hedging?

A hedge is simply a way of insuring an investment against risk. Currency hedging protects against movements in exchange rates, which can result in net gains and losses for any investment portfolio which contains offshore investments. In an unhedged portfolio, a rise in the Australian dollar means that international investments will lose some of their value when they are converted back to Australian dollars.

The Australian dollar can be quite volatile, but hedging through the prudent use of financial instruments such as insurance, forward contracts, futures contracts, swaps and options, can reduce the effect of currency fluctuations and protect the capital value of the portfolio.

## How do we protect our investment portfolio?

With the exception of international shares, our policy is to always fully hedge the international assets. This means we are not subject to the risk of a rising Australian currency for these assets.

For International Shares, our benchmark position is to hedge the assets by 50% but we do have the discretion to change this ratio depending on our assessment of the outlook for the Australian dollar.

At the moment we are slightly cautious about the outlook for the global economy so our current hedge ratio is slightly below the 50% level.

# Markets at a glance

for the month ending 30 June 2011

- Australian shares[1] down by **2.12%**
- Australian Government Bonds[2] steady at **5.21%**
- Australian dollar up to **US$1.0739**
- Cash rate[3] steady at **4.75%**
- International shares[4] down by **1.74%**

1 ASX 200
2 Yield on 10 year Australian Government bonds
3 RBA cash rate
4 MSCI – World ex Australia



L0011-07/11-WEB