Perpetual Equity Investment Company Limited

Perpetual knowledge bank series: currency hedging

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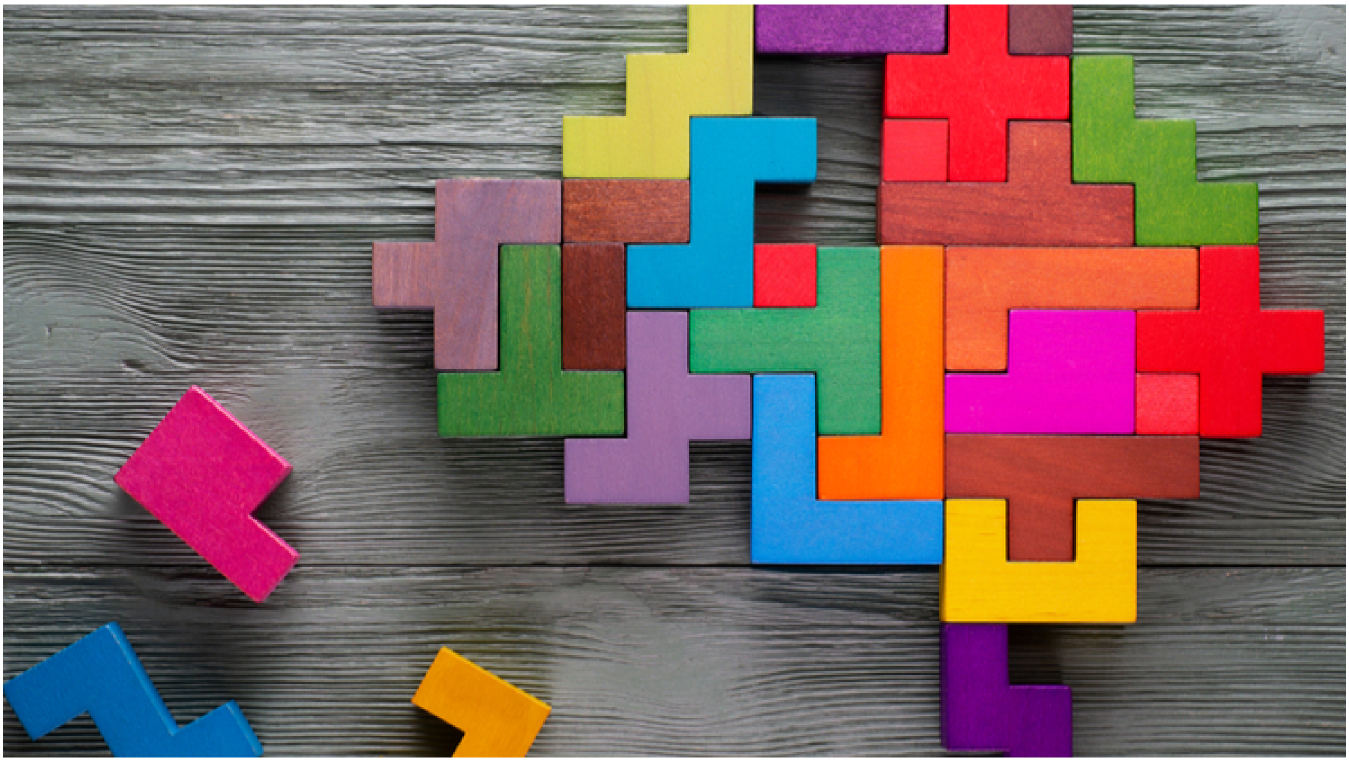

Investments in global listed securities and any transactions that are denominated in a foreign currency carry the risk of exchange rate fluctuations. This includes directly investing in global listed securities or through managed investments such as ETFs, managed funds or listed investment companies and trusts. Currency risk may also be present when you invest in an Australian company that has operations in or earnings derived from overseas. Therefore, the value of your investment may be impacted positively or negatively by both the change in stock price of the global listed securities and exchange rate movements.

For example:

- If the Australian dollar rises, the value of the global investments expressed in Australian dollars can fall. Let’s say you buy AUD $100 worth of shares in a company listed in the US. The exchange rate at that time is AUD $1 = US $0.70 which means for every 1 Australian dollar, you would get 70 US cents. This means you get US $70 worth of shares in the company listed in the US. If the Australian dollar rises to be AUD $1 = US $0.80 when you sell your investment in the company listed on the US, you get back AUD $87.50 if the share price has remained unchanged.
- On the other hand, if the Australian dollar falls, the value of the global investments expressed in Australian dollars can rise. Using the same example as above, let’s say the Australia dollar falls to be AUD $1 = US $0.60 when you sell your investment in the company listed on the US. This means you get back AUD $116.67 once you convert the sold investment from USD to AUD if the share price has remained unchanged.

Currency hedging refers to the methods used to minimise the impact of movements in exchange rates. For example, foreign currency forward contracts may be entered into with another party to lock in a set exchange rate for a set period regardless of fluctuations in the future. If the movement in exchange rates causes the value of the investment to decrease (i.e. the Australian dollar appreciates), the forward contract is designed to provide an offsetting gain. This helps mitigate the risks from volatility in exchange rates that may lead to losses in your investment.

However, there may also be disadvantages to currency hedging. If the movement in exchange rates causes the value of the investment to increase (i.e. the Australian dollar depreciates), you won’t get the benefit as the forward contract already locked in an exchange rate prior to you selling your investment. Currency hedging may also become more complex with different currencies as they don’t all move at the same rate or in the same direction. Other considerations for currency hedging include the diversification of your portfolio, the types of assets held in your portfolio and how long you intend to hold your investment.

The Perpetual Equity Investment Company (PIC) is a listed investment company that invests in an actively managed portfolio of Australian securities with typically a mid-cap focus and global listed securities. For investments in global assets, which have currency exposure, there is potential for adverse movements in exchange rates to reduce their Australian dollar value and, therefore, the value of the PIC Portfolio. While the Manager expects the PIC Portfolio will be typically unhedged, the Manager may hedge the Company’s Portfolio defensively if the Manager believes there is a significant risk of currency weakness associated with a global investment.