Managing Partners Limited warns FX volatility threatens TLP funds' liquidity

- ***Blend of currency hedging solutions are needed to minimise liquidity risk***

LONDON, 06.05.10 – Funds that invest in traded life policies (TLPs) must use a blend of currency hedging solutions in order to deal with the ongoing volatility on FX markets, according to **Jeremy Leach, Managing Director or Managing Partners Limited** (MPL), in an address to an industry conference.

Speaking to delegates at the Insurance-Linked Securities Summit conference held at the Meridian Hotel in Piccadilly, London, Mr Leach said that chronic FX volatility now posed the greatest liquidity risk for TLP funds. TLPs are United States-issued whole of life policies sold before maturity so that the original policyholders can enjoy some of the benefits in their own lifetimes.

Funds that invest in TLPs are designed to deliver smooth, predictable returns in an investor's base currency. Because TLPs are dollar-denominated assets, this means the currency risk must be hedged for sterling and euro investors.

Mr Leach said: "The most cost-effective way to hedge currency risk is by purchasing forward foreign exchange transactions. But a 'Forward' either creates cash or consumes cash, depending on whether the dollar strengthens or weakens. If a currency pair, such as dollar-sterling or dollar-euro, moves significantly in an adverse way then that creates an enormous liquidity burden on a fund by eating away at the cash reserves.

"When currency pairs are as unpredictable as they are now, with the stability of sterling threatened by the prospect of a hung parliament and the euro undermined by the Greek, Spanish and Portuguese credit risks, then a blend of options and forwards are needed, especially when the volatility has been ongoing for so long."

Forwards are a type of derivative that lock in the price at which two parties are obligated to buy and sell a specified amount of currency on a particular date and at a set exchange rate. When purchased in the correct ratio to a currency pair such as Pounds and Dollars they offset any positive or negative currency trend. Forwards are comparatively cheap to buy because they cover both sides of the trade and so they have nominal impact on net asset values.

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Options work in different way in as much that they only cover one side of the trade. They tend to be more expensive because of this but as their name suggests; they are an option to buy or sell a currency at a set price in the future and only need to be exercised to offset the loss that may be incurred if a currency pair creates negative value. So if the dollar were to strengthen for example the option would not be exercised and the fund would still gain from the increase in dollar value against GBP.

MPL's Traded Policies Fund is available as institutional share classes in US dollar, Euro, Sterling and Japanese Yen denominations. Growth share classes, which are suitable for retail investors, are available in US dollar, Euro, Sterling, Swedish Krona and Japanese Yen. The Fund is fully hedged in these currencies. The longest-running share class in the fund, the US dollar institutional, was launched on 30 June 2004 and has returned 63.91% since then up to 1 May 2010, net of all charges. Over the 12 months to that date, it has returned 9.13%.

For further information on Managing Partners Limited range of funds, call +44 (0)203 397 0525 or visit (www.managing-partners.com).