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## **CURRENCY OVERLAY MANAGERS CONTINUE TO ADD VALUE OVER THE LONGER TERM**

Statistics published by Mellon Analytical Solutions (MAS) today show that the universe of currency overlay managers included in a recent MAS review have added value over the longer term. Over five years to 31 March 2007, managers achieved a median excess return of 0.28% p.a., while over 10 years, the median outperformance was 0.25% p.a. However, although these managers achieved an average outperformance of 0.06% over the first quarter of 2007, they were less successful over the medium term. Over one and three years to 31 March 2007, the median excess returns were -0.36% p.a. and -0.27% p.a. respectively.

According to the results of MAS's latest analysis, at the end of March 2007 the average UK pension fund held 28% of its assets in overseas equities. This represents a 6.7% increase over the last 10 years. Consequently, pension funds are increasingly being exposed to exchange rate fluctuations which, if not managed, introduce an element of risk with no reward. In recent years, investors have sought to address this by implementing currency overlay strategies.

Daniel Hall, Mellon Analytical Solutions' Publications and Statistics Manager, said: "Currency movements represent a significant short-term risk to pension funds' overseas investments. For example, over the last 12 months, the US equity market rose by 12.0% in local currency terms. However, sterling strengthened against the dollar over this period reducing this return to -1.0% in

sterling terms. The same pattern was seen with Japanese equity investments, due to the fall in the value of the yen against the pound.”

Each quarter, MAS publishes the results of its Currency Overlay Manager Profile Analysis. This survey examines the overall excess returns achieved by active currency overlay managers against benchmark, across different styles, hedge ratios and base currencies.

The MAS Currency Overlay Manager Profile Analysis is a Mellon Analytical Solutions service. The universe includes accounts from 20 separate asset managers with a total asset value in excess of \$97 billion.

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#### **Notes for Editors**

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