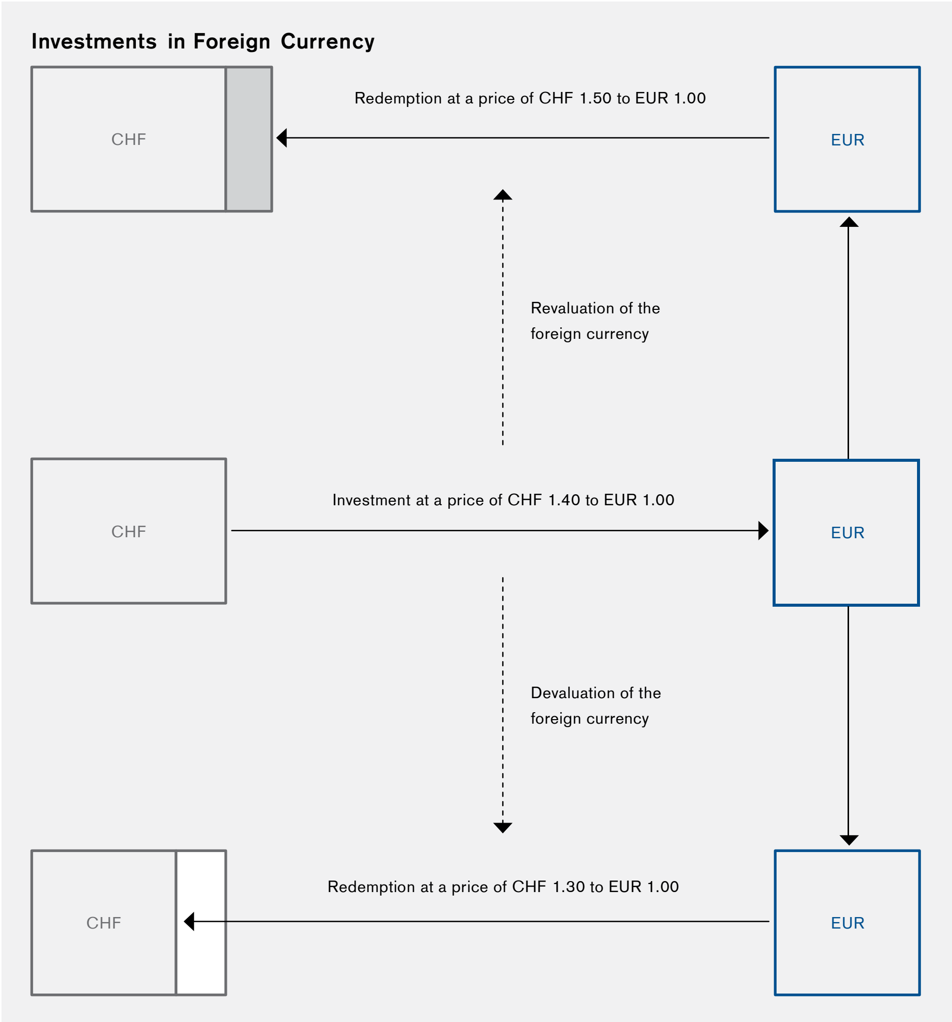
Foreign Currency Risk
Risk Aspect Documentation

This document explains the characteristics, benefits, and risks associated with investments in foreign currencies. The knowledge acquired should help you in making investment decisions. If you have any further questions, please contact your relationship manager.

Properties
A foreign currency risk can occur if the currency in which you make your investment is not your home currency. In addition, a foreign currency risk can occur if the underlying asset is listed in a different currency than the financial instrument itself.
When investing in financial instruments in a foreign currency, you must always observe the development status of the respective national economy, the relationships between the national economies, and differences in interest rates, as exchange rates are highly dependent on these factors. You will be subject to risks such as market risk, economic risk, country and transfer risk as well as political risk.
For example: devaluation of the foreign currency compared with the home currency will cause the foreign financial instruments which have been valued in the base currency to lose value.



Possible Benefits

- Diversification
- Additional returns potential

Possible Risks

- Market risk (currency fluctuations)
- Economic risk
- Country and transfer risk
- Political risk

In some situations, the devaluation effect can be greater than the return made in the foreign currency. Thus, even if there is a positive development in your investment in the foreign currency, you may suffer a loss in your home currency.

Other Features

Influence Factors on Exchange Rates

In currency analysis, a distinction is made between structural, cyclical, and short-term influence factors.
Structural factors, which have a **long-term** influence on the exchange rate of a country, include the inflation expectations of the country, productivity levels, inflation levels, long-term developments of the net currency reserves and liabilities, and sustained trends in the relationship between export and import prices. These factors are the basis of the so-called valuation component (fair value) of currency analysis.

Cyclical factors can bring about **medium-term** deviations in the exchange rate from the long-term equilibrium. These medium-term trends are influenced, for example, by the development of real interest rate spreads, trade and current account balance figures, or monetary and fiscal policy decisions. This is the so-called cyclical component of currency analysis.

Short-term factors such as current market opinions, acts of war, and other political conflicts can also influence price and liquidity in the trading of certain currencies. This is the so-called trend and momentum component (technical component) of currency analysis.

Possible Benefits

Diversification

By investing in foreign currencies, you can achieve a balanced distribution of your investment capital. In doing so, you not only apply the principle of diversification to different asset classes, but also to different investment currencies.

Additional Return Potential

By investing in foreign currencies, you may be able to benefit from positive exchange rate developments. This allows you to tap additional return potential. However, this is associated with the risk of a negative exchange rate development.

Possible Risks

Potential Loss
The exchange rate development can quickly consume a possible return margin and affect the return to such an extent that the investor can suffer a loss – measured in his/her base currency – even if there is a positive development in the underlying asset.

Market Risk (Currency Fluctuations)
When investing in a foreign currency, the investor is subject to the risk of the exchange rates developing unfavorably. Exchange rates can be very volatile and can fluctuate significantly. They are influenced by many micro and macroeconomic factors.

Economic Risk
The economies of some countries, for example emerging market economies, react more strongly to a change in economic activity than the economies of developed countries. The markets react in particular to planned and actual changes in monetary policy, the national economy and financial policy, and changes in interest or inflation rates. Therefore, setbacks can occur in foreign-exchange markets even where the development prospects were originally considered to be favorable.

Country and Transfer Risk
Country risk refers to the risk of economic or political instability. Monetary payments to which the investor has a claim can fail to appear due to a shortage of foreign currency or to transfer restrictions. In some circumstances, this can result in payments being made in a currency which is no longer convertible due to currency restrictions that have come into force.

Political Risk
Politically unstable countries pose a greater risk, which can bring about short-term fundamental changes in the economy and politics. Political instability can have a negative effect on the currency of the respective country and lead to significant currency fluctuations.

SOLS 6 12E 2530114 08.2015