Treasury Insight. Expertly Applied.

At Rochford we know each company’s tolerance to risk is different and therefore we offer bespoke market and treasury risk solutions that are derived from decades of practitioner-based experience.
About Rochford
Rochford Group is Australia’s largest independent treasury advisory house advising on in excess of AU$20 billion in financial market risk

Rochford’s currency overlay services are uniquely designed for each mandate, underlying asset portfolio, and risk return profile.

- Rochford is now the most highly respected, valuable and one of the fastest growing treasury risk advisors in this niche market. We offer a full suite of advisory services within treasury
- Rochford works across numerous industry sectors providing practical advice to our clients ensuring that their financial results are not adversely affected by avoidable market risks
- Rochford’s depth of expertise together with our pragmatic approach allows us to expertly deliver valuable insight to every treasury situation
- Founded in 2010 following a management buyout of one of Australia’s leading financial advisory businesses

Why we exist?
Rochford provide the information, analysis and solutions that equip our clients with a 360-degree awareness of financial market risk, the tools to endure economic shocks and lead where others falter
Analysis

- Qualitative portfolio types and characteristics assessment
  - Asset classes
  - Risk/return profiles
  - Income/capital oriented
  - Desired exposures

- Back testing overlay strategies against portfolio types and objectives
  - Quantification of risk on undesired exposures and correlation characteristics (e.g., US equities to AUD/USD .. )
  - Application of hedging strategy to measure risk reduction and Beta impact
  - Conducted using proprietary Monte Carlo modelling

Design

**Passive**

- Tailoring fixed, often longer dated, structured derivatives that provide a required percentage of exposure protection
- Optionality incorporated to provide opportunity to pivot strategies at predetermined dates

**Active**

- Defines Neutral, Over and Under Hedged levels
- Coverage levels determined based on prevailing market conditions
- Internally developed execution strategies underpinned by Fundamental & Technical indicators
- Can seek to add Alpha to CSC portfolios

Rollout

- Dry run of optimised strategies
- Operations coordination strategy with internal CSC traders
- Management and performance reporting
- Multibank execution

Ongoing Administration & Support

- Policy construction and compliance reporting
- Hedge accounting & reporting
- Effectiveness reporting & strategy reviews
- Management of maturity profiles and Rebalancing
- Collateral management of derivative book
- Cloud-based derivative warehouse
Development Phases

I. Analysis
   - Qualitative
     • Bespoke strategy baskets catered to specific asset classes and portfolio objectives
   - Quantitative
     • Dynamic hedging / adding Alpha

II. Design
   - Active
     • Dynamic hedging / adding Alpha
   - Passive
     • Reduced portfolio return volatility

III. Rollout
   - Dry Run
   - Live Execution
   - Ongoing Administration

Outcomes
Overlay Strategy

The Market

Macro Fundamentals

Technical Indicators

Specific Market Timing Hedge Signals

Macro Fundamentals:

- Economic Data Trends
  - Inflation
  - Employment
  - GDP

- Interest Rate Differentials
  - Cost of carry
  - Monetary policy
  - Yield curve shifts

Intermarket Analysis

- Fixed income
- Equities
- Commodities

Geopolitical Events

Technical Indicators:

- Momentum
- Moving Averages
- Oscillators
- Long, Medium & Short Term Trends
Overlay Strategy

The Market

Macro Fundamentals
Technical Indicators

Specific Market Timing Hedge Signals

Hedge Closeout Levels
Position Size aligned with Strategy Compliance

Hedge Execution

Overlay Strategy Compliance and Risk Management

Allowable New Hedges

Net Open Hedges
Volatility & Correlation
Unrealised P&L

Open Hedges

Value at Risk

Risk-adjusted Fund Compliance

Post-hedge execution Compliance

Balance between Optimal Hedging and Risk Management
Summary

Confidence Level: 95.00%

Unhedged Position
- Expected End Cash: 57,718,812
- Expected Minimum End Cash: 48,230,097

Hedged Position
- Expected End Cash: 57,498,590
- Expected Minimum End Cash: 52,754,333

CFaR: 9,488,715

CFaR Summary

Risk Reduction: 4,744,157

% Risk Reduction: 50.00%

Quantitative Hedge Analysis

Unhedged and Hedged Cumulative Base CCY Cashflow at Risk

Cumulative Distribution Function

Unhedged Observations
Hedged Observations
Unhedged CDF
Hedged CDF
Confidence

Net Cash Flow

CFaR Unhedged & Hedged Histogram

VaR - Long-term Volatility*

<table>
<thead>
<tr>
<th>Confidence</th>
<th>Quarterly</th>
<th>Semi-Annual</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>95%</td>
<td>10,796,074</td>
<td>15,718,297</td>
<td>21,324,849</td>
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<tr>
<td>99%</td>
<td>16,203,169</td>
<td>23,203,019</td>
<td>31,412,319</td>
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*Expressed in AUD based on an average of the 3 methods & FMAV of USD 71.16

*Assumes AUD spot of .7125

*Using the historic period of Sep ’09 - Aug ’15

VaR Summary

VaR - High Volatility*

<table>
<thead>
<tr>
<th>Confidence</th>
<th>Quarterly</th>
<th>Semi-Annual</th>
<th>Annual</th>
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</thead>
<tbody>
<tr>
<td>95%</td>
<td>14,561,389</td>
<td>20,284,537</td>
<td>29,941,209</td>
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<tr>
<td>99%</td>
<td>21,406,655</td>
<td>30,963,518</td>
<td>42,948,742</td>
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</table>

*Expressed in AUD based on an average of the 3 methods & FMAV of USD 71.16

*Assumes AUD spot of .7074

*Using the historic period of Sep ’09 - Aug ’15
• Long USD Fund

• Add Alpha approach with Long AUD hedges
- Long USD Fund
- Add Alpha approach with Long AUD hedges

Sell-off in AUD throughout the afternoon has retraced all of yesterday’s gains after double bottom reversal pattern exceeded its price target. An engulfing candle pattern could be signalling a reversal of the 9-day rally. If this is the case, then the hedge position can be expected to reduce from 70% to 35% at close tomorrow as the RSI will close below 70 for 2 consecutive days.

AUD rally continues w/ commodities and expectations of further Chinese stimulus. RSI indicator has reached +70 overbought levels. 2 days of low volatility trading should ebb RSI sub 70 for nice position-close signal and profit-take. A sharp reversal could see unrealised P&L evaporate quickly.

A close below .7267 would suggest a further drop to .7189 and tests of .706 lows thereafter.
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