

EDUCATION NOTE

IMPACT OF CURRENCY VOLATILITY

A key point of difference between owning Australian shares and global shares is that global shares expose the value of the portfolio to movements in exchange rates between the Australian dollar (AUD) and foreign currencies. This is because global shares are purchased in the currency of their home country. When AUD is converted into a different currency to make an investment, changes in the value of that currency relative to the AUD will affect the total loss or gain on the investment when the investment is converted back into AUD.

The effect of changes in the AUD relative to foreign currencies like the United States dollar (USD) has two important impacts on the value of global shares:

Rising AUD decreases the value of global shares (AUD ↑ = Global Shares Value ↓)

Example 1 illustrates the impact of a rising AUD has on the value of American shares. Assume 1000 shares were purchased in an American company at a value of USD \$50 each when the AUD/USD exchange rate was 0.75. If the share price remains constant over the month but the value of the Australian dollar goes up against the USD to 0.80, then the actual value of the investment falls by \$4,167. This is because the global shares buy less AUD than before when converted back into AUD.

Example 1: Impact of Rising Australian Dollar

Period	Share Quantity	Share Price in USD	Share Value in USD	Exchange Rate AUD/USD	Share Value in AUD
1st Aug XX	1000	50	50,000	0.75	66,667
31st Aug XX	1000	50	50,000	0.80	62,500

As a result of the rising Australian dollar the American share value has fallen by AUD \$4,167.

Falling AUD increases the value of global shares (AUD ↓ = Global Shares Value ↑)

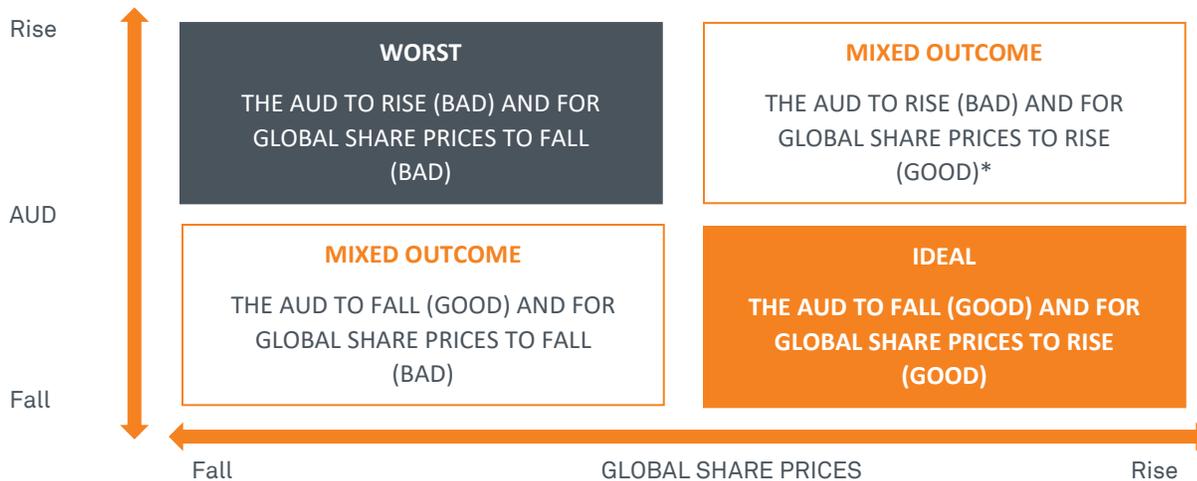
In example 2, the American stock price has not changed in value over the month but because the AUD has fallen in value from USD 0.80 to 0.75, the value of the investment has risen by \$4,167. This is because the global shares now buy more AUD than before when converted back into AUD.

Example 2: Impact of Falling Australian Dollar

Period	Share Quantity	Share Price in USD	Share Value in USD	Exchange Rate AUD/USD	Share Value in AUD
1st Sept. XX	1000	50	50,000	0.80	62,500
31st Sept. XX	1000	50	50,000	0.75	66,667

As a result of the falling Australian dollar the American share value has risen by AUD \$4,167.

THERE ARE FOUR POSSIBLE SCENARIOS FOR INVESTING OFFSHORE:



* This scenario reflects market conditions in recent months.

The time frame of a global investment also plays a role in managing foreign currency exposures. If investing for the short term, and the view is that the AUD will rise over that period, then hedging makes sense. But there is a cost to hedging, and an additional fee of 1.0% to 2.0%.

Being unhedged in global shares reduces risk. This is because the AUD is globally viewed as a risk-on currency, which means that when equity markets rise, the AUD tends to rise also. But when markets fall, the AUD tends to fall. If global shares are falling, Australian investors get a return uplift from foreign currency exposures as the fall in the AUD offsets the fall in global share prices. This scenario is represented in the lower left quadrant.

Contango Global Growth Limited (ASX code CQG) is intended to be a long-term investment to be judged over periods of at least five years. We are comfortable to maintain an unhedged foreign currency position and not be swayed by short term currency volatility and not incur expensive hedging costs. Over the long term, in our experience, gains and losses from currency movements have typically offset each other. This is what we believe will continue to be the case in the future.

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