



Currency Hedging

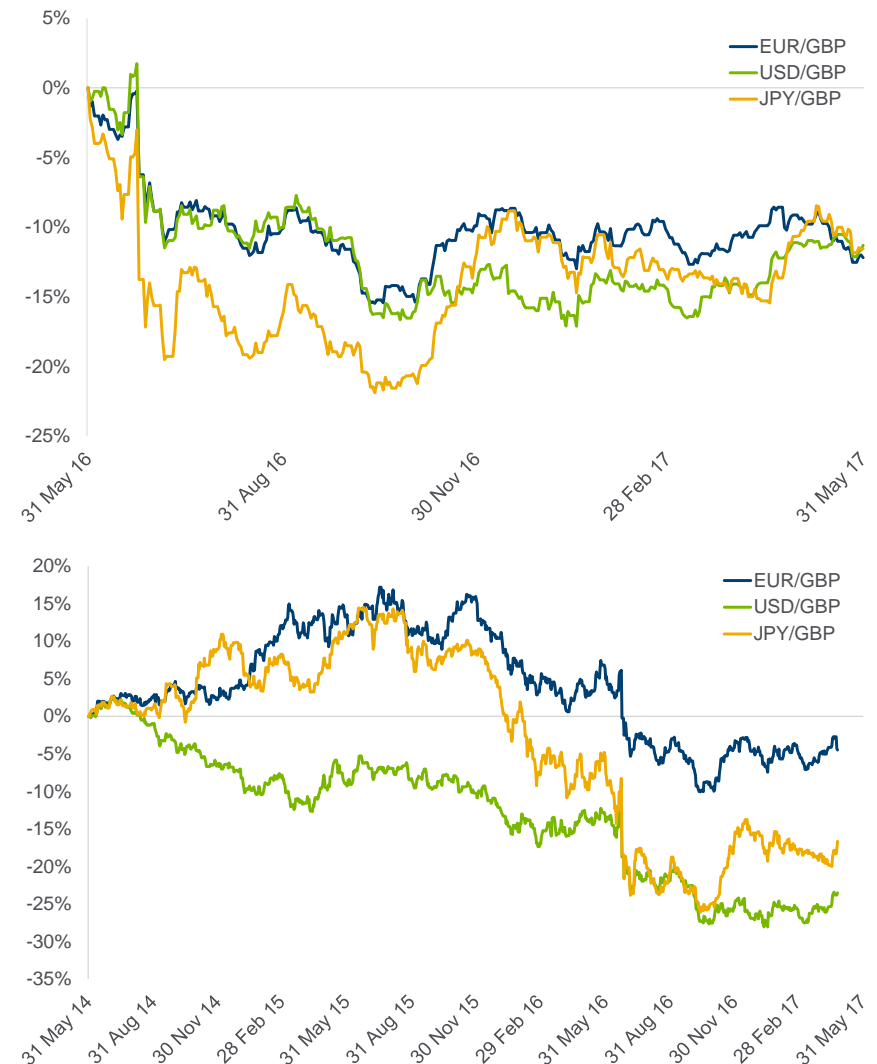
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Retirement & Investment
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Sterling Depreciation

- Since the Brexit vote on 23 June 2016, Sterling has seen a sharp depreciation against the US Dollar and other major currencies
- However, weakening Sterling has been a trend for a number of years, falling around 20% against both the US Dollar and Japanese Yen
- Although the pound has seen somewhat of a rebound versus the dollar since the announcement of the General Election, it remains well below its pre-Brexit levels



Currency Exposure

	LGIM World (ex UK) (£'000)	Total (%)
UK	54,302	9.5
North America	284,570	49.8
Europe	155,202	27.2
Japan	44,648	4.8
Other	28,461	5.0

Source: LGIM

Note: excludes cash

- The table above shows the currency exposure of the Fund's overseas equities as at 30 April 2017
- The Scheme has significant exposure to US dollar, which has benefitted returns over the last twelve months

Impact of Currency Movements

- The table below shows the approximate impact of the fall in Sterling versus the US Dollar on the Fund's equity portfolio between 31 May 2016 and 31 May 2017 (latest available)

	USD Exposure 23 June 2016 (£m)	USD/GBP 23 June 2016	USD/GBP 31 May 2017	Gain (%)	Gain (£m)
LGIM	245.3	1.4807	1.2910	7.2	36.1

- For reference, the table below shows the impact of the fall in Sterling from 31 May 2016 to 16 January 2017, when the exchange rate hit its lowest point

	USD Exposure 23 June 2016 (£m)	USD/GBP 23 June 2016	USD/GBP 16 Jan 2017	Gain (%)	Gain (£m)
LGIM	245.3	1.4807	1.2065	11.2	55.8

Longer Term Impact

- The following table shows the approximate impact of the depreciation of Sterling versus the US Dollar from 30 June 2014 to 31 May 2017. Please note the calculations do not take into account any contributions or redemptions that may have taken place over this period

	USD Exposure 30 June 2014 (£m)	USD/GBP 30 June 2014	USD/GBP 31 May 2017	Gain (%)	Gain (£m)
LGIM	194.0	1.7099	1.2910	15.7	63.0

Aon Hewitt View

- The recent devaluation of Sterling leads us to see this as an opportune time for consideration of hedging currency exposure
- Although Sterling has seen a small rebound against the US Dollar since the announcement of the General Election on 8 June 2017, we maintain our view that Sterling is below fair value, although we see levels of \$1.20 as “cheap”
- We also maintain our view that Sterling looks below fair value against the Euro and Yen (which together with the US Dollar comprise the majority of the Fund’s overseas exposure)
- We recommend that the Pension Committee consider hedging a portion of their overseas equity exposure to capitalise on gains that have been made over the past twelve months

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