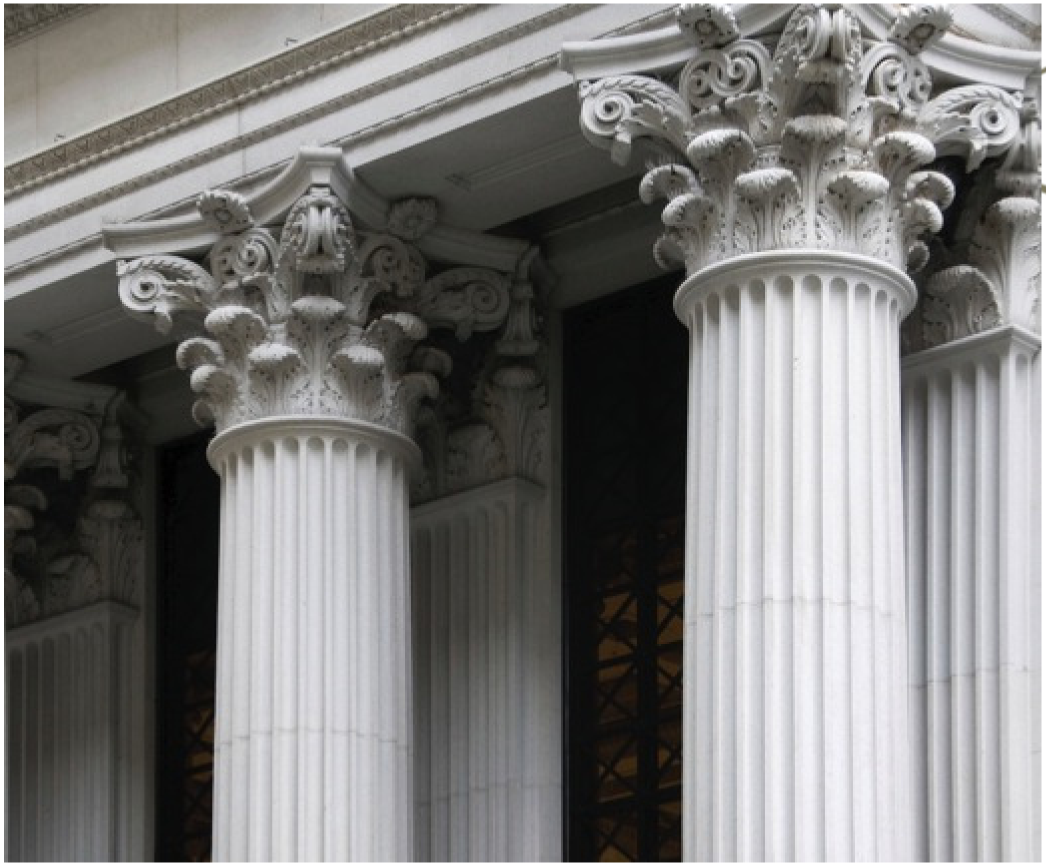

CIBC Asset Management (CAM) Currency Market Turbulence

Niagara Institutional Dialogue

June 2015

Michael Lewis, CFA
Vice-President,
Currency and Absolute Return

How to Manage Currency Turbulence?

There is substantial interest in currencies, currency management and even currency as an asset class.

We will provide introductory thoughts on these questions :

1. Is the currency turbulence a new phenomenon? What might cause it persist, or dissipate?

1. Is there bullet proof hedging policy?

2. Is there scope to add value in currency markets?

Data from Options Markets Show Increased Turbulence

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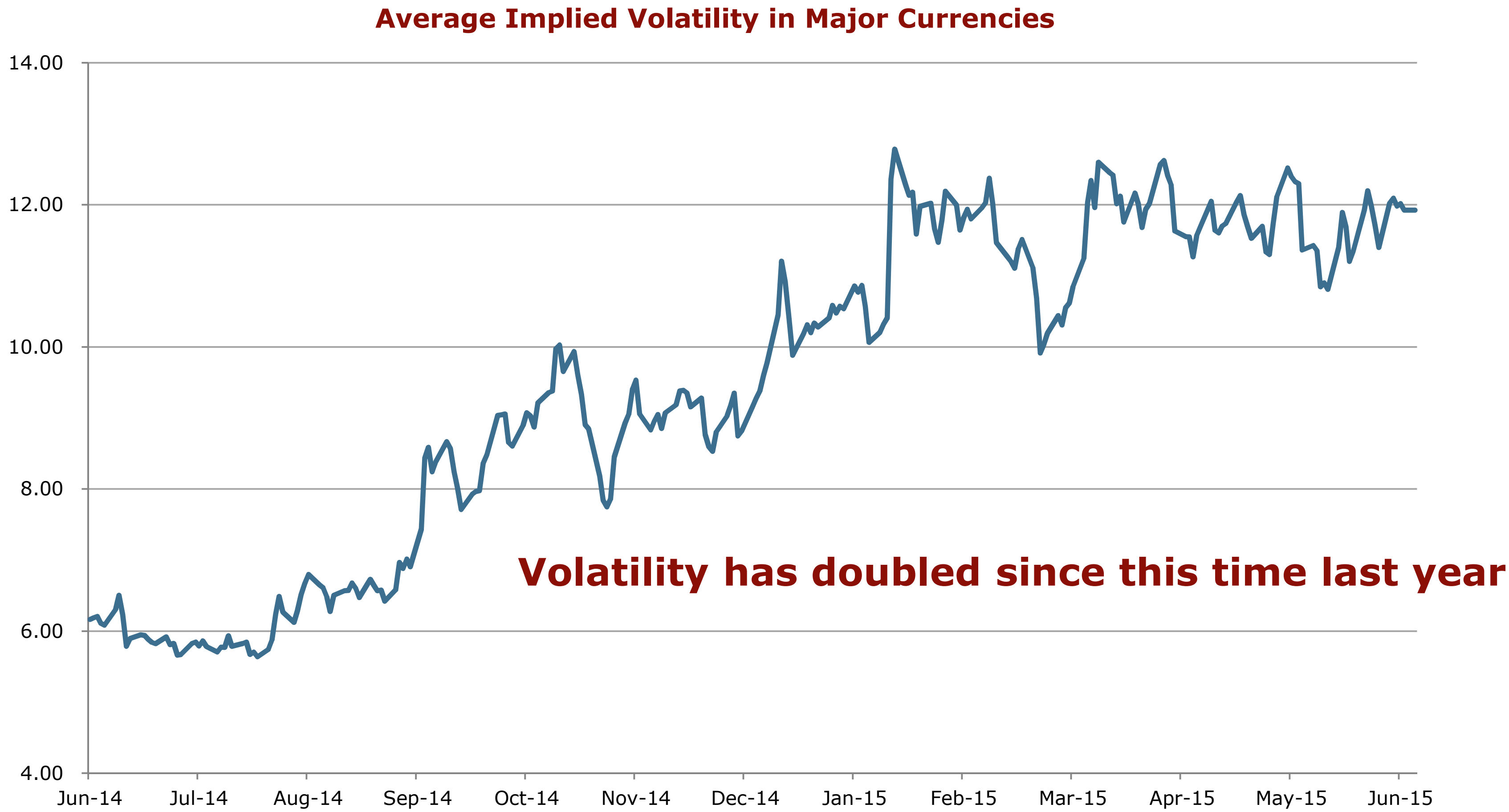

Source: Thompson Reuters Datastream & CIBC Asset Management Inc.
As of June 8, 2015

Longer term perspective on Currency Turbulence

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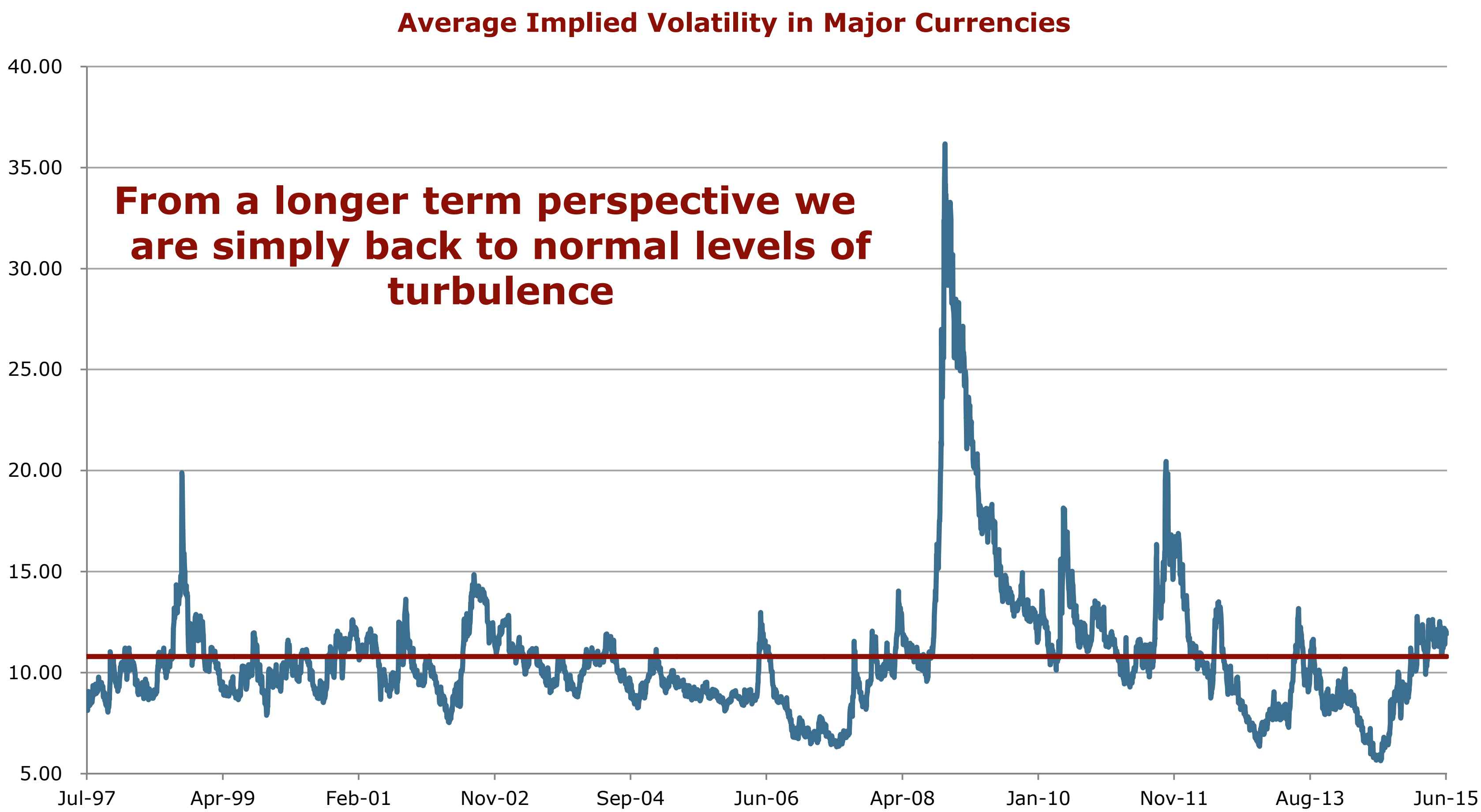

Source: CIBC Asset Management Inc.
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Governments’ Toolbox for Economic Management

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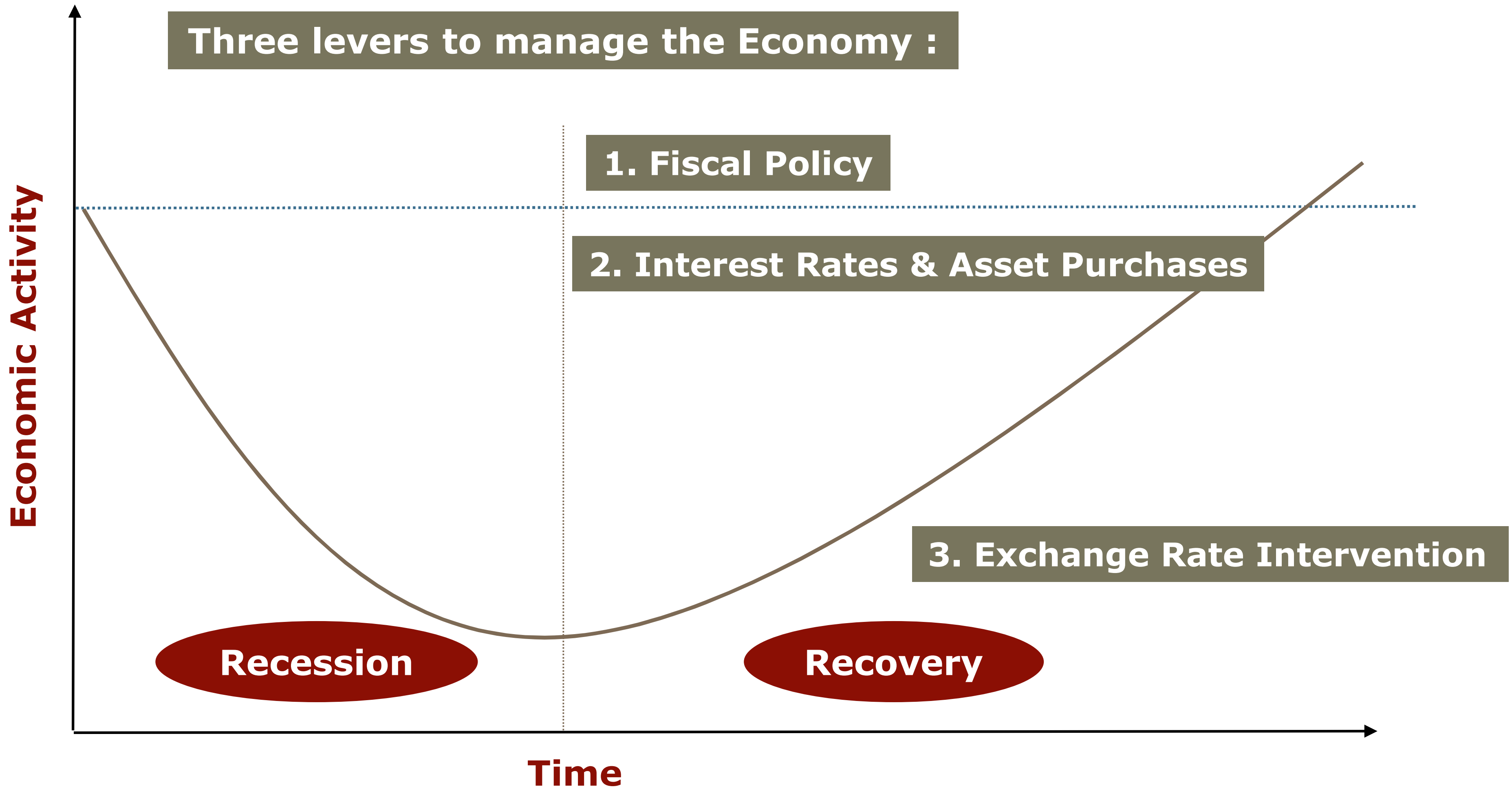

Source: CIBC Asset Management Inc.

Little Fiscal Policy Room…

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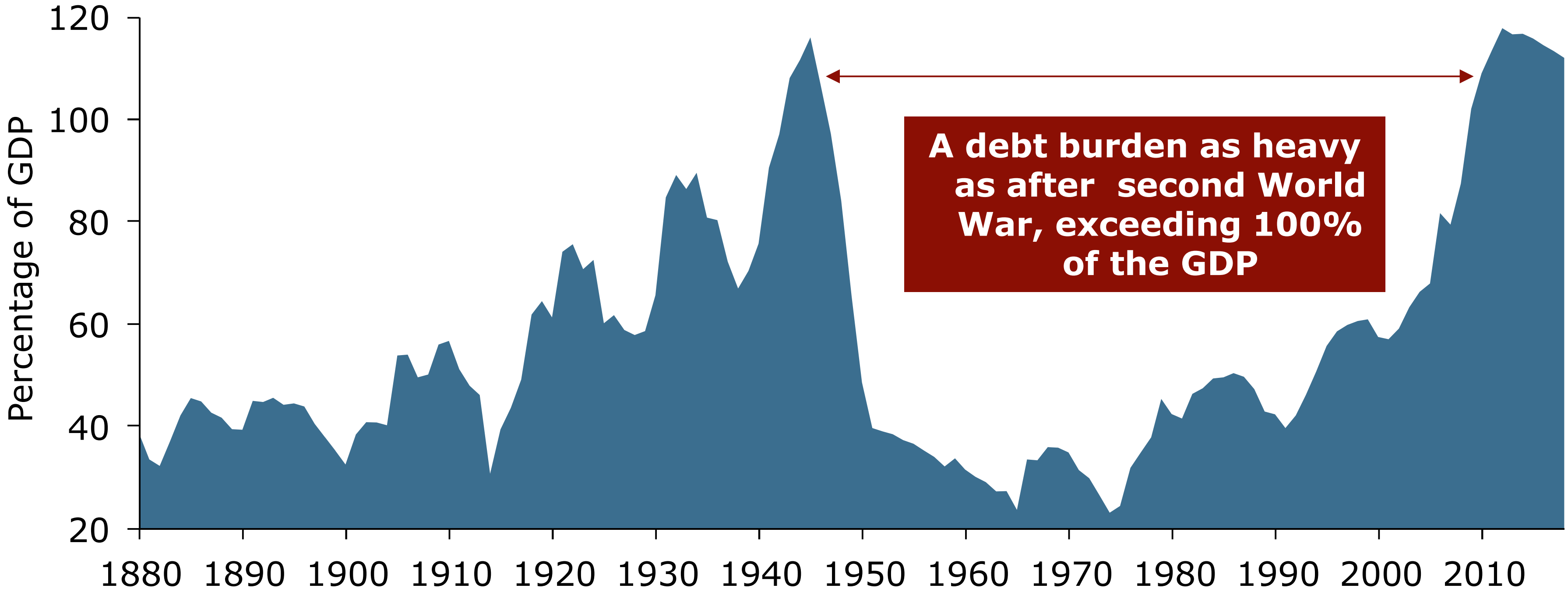
No more fiscal flexibility due to record debt levels

G20 General Government Debt



Sources: Thomson Reuters Datastream and CIBC Asset Management Inc.

Interest Rates at the Zero Lower Bound (ZLB)

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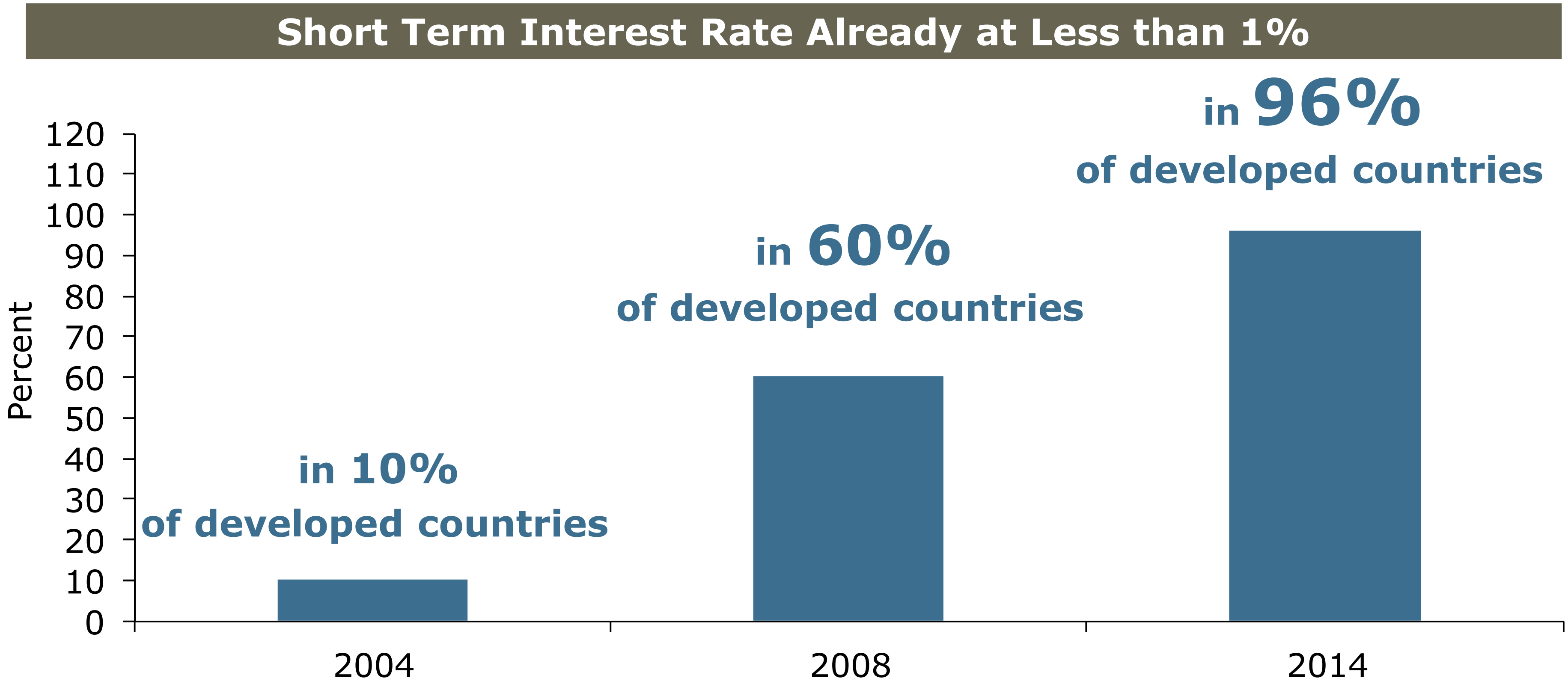
Major Central Banks already lowered interest rates to 0 or even negative!



Sources: Thomson Reuters Datastream and CIBC Asset Management Inc.

The Importance of Managing Currencies

Currency Impact on Portfolio Return

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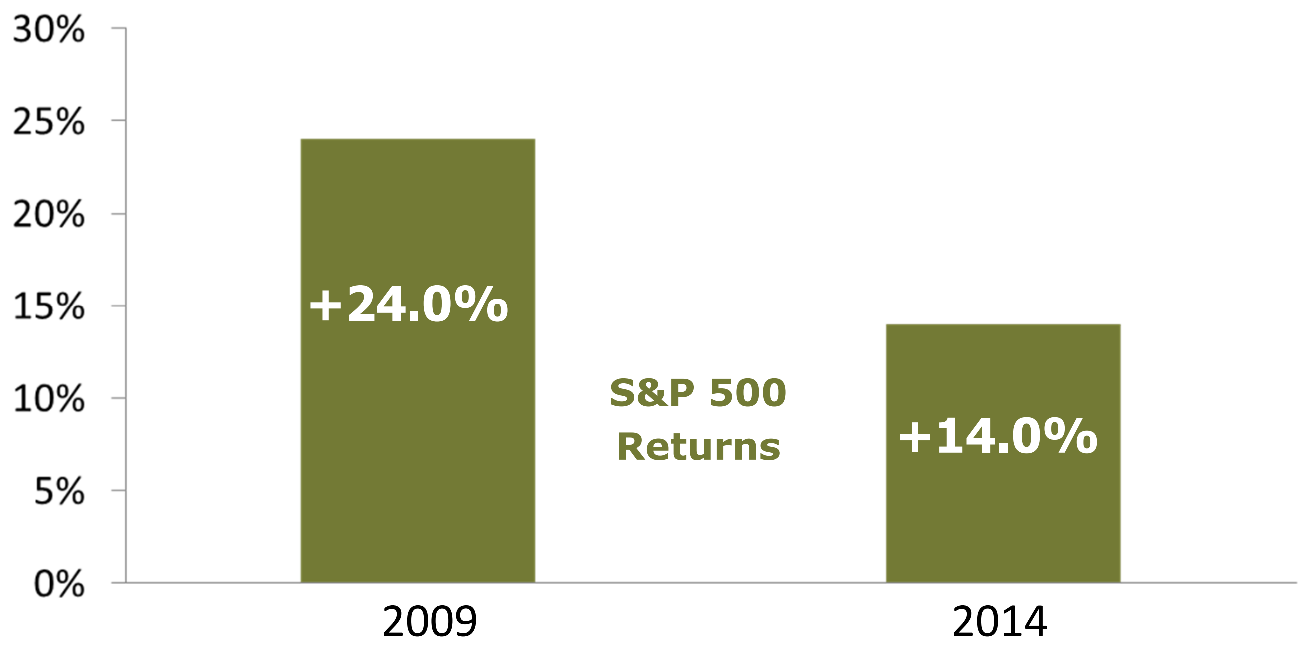
Foreign investment return is composed of:

Total return = foreign currency return + index local return

S&P 500 Returns (in local currency)



Sources: Thomson Reuters Datastream and CIBC Asset Management Inc.

Currency Impact on Portfolio Return

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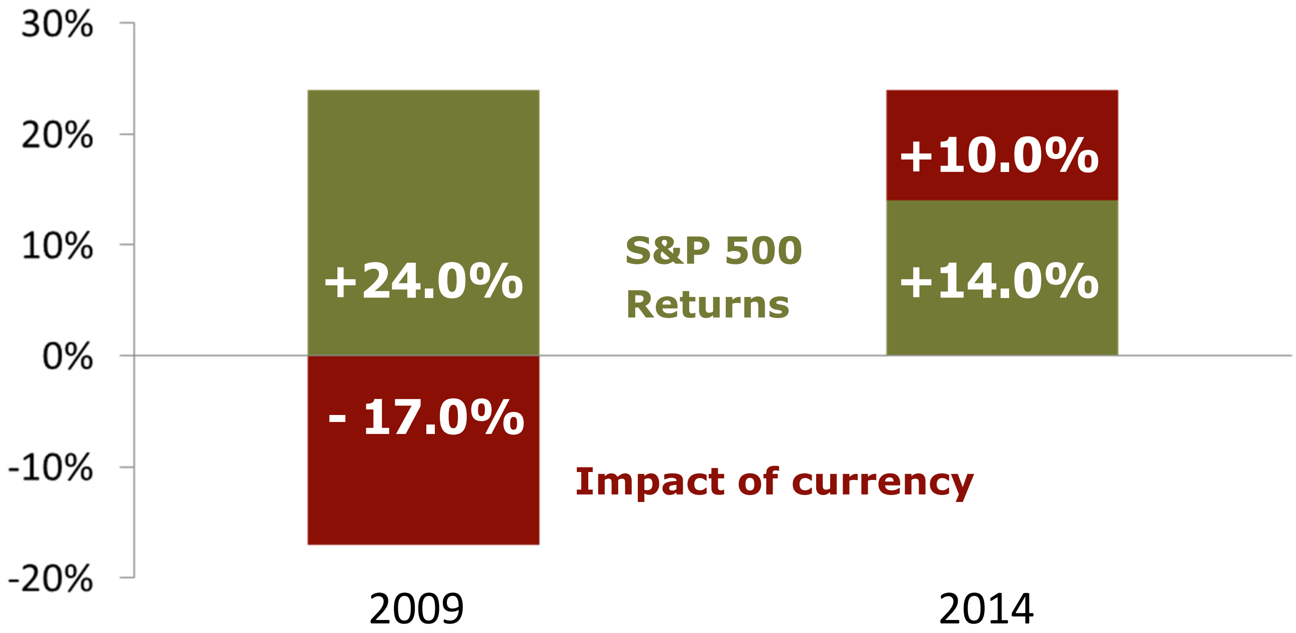
Foreign investment return is composed of:

Total return = foreign currency return + index local return

S&P 500 Returns after the impact of currency



Sources: Thomson Reuters Datastream and CIBC Asset Management Inc.

Currency Impact can be Quite Large

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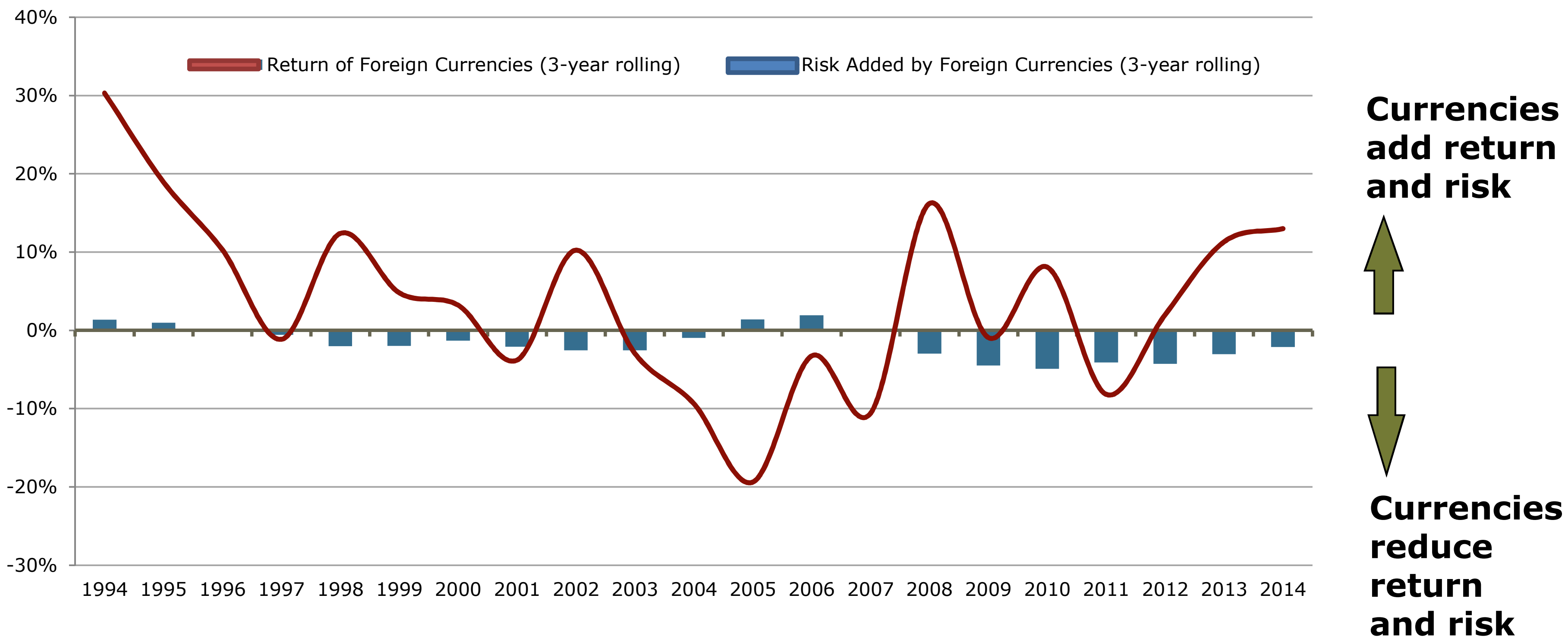
Key considerations to manage foreign currency exposure:

Return of foreign currencies: short-term returns can be quite volatile

Diversification benefit and risk: not always risk reducing



Sources: Thomson Reuters Datastream and CIBC Asset Management Inc.

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Is there a optimal hedge ratio? Does it change?

A Spectrum of Approaches to Currency Management

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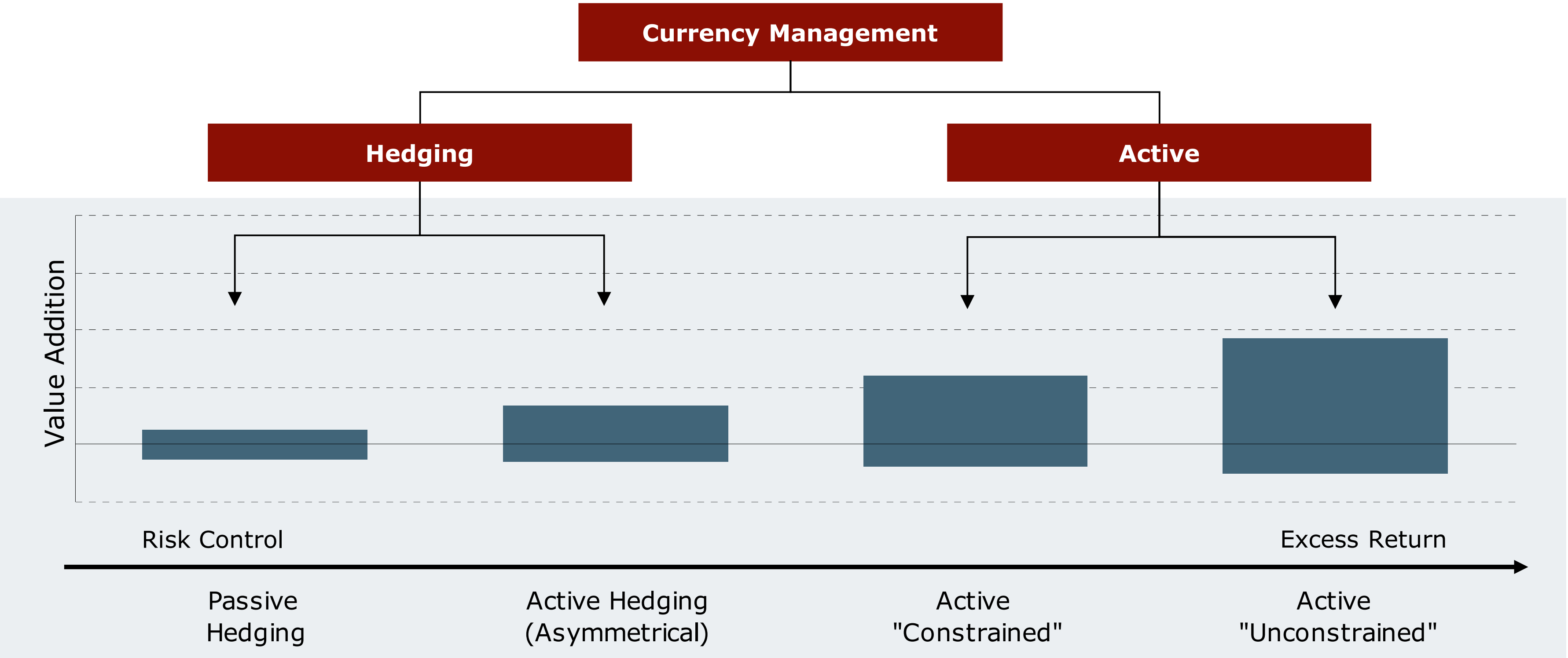

- Aim to neutralize currency risk of international asset portfolio.

- Aim to add value while being constrained by the underlying exposure of the international portfolio.
- Asymmetrical: Possibility to hedge or not based on the underlying foreign currency exposure.

- Allows over/underweights in foreign currency exposure but taking into account underlying foreign currency exposure.

- Aim to add value by taking currency positions regardless of the underlying foreign currency exposure.
- Can be managed through an overlay or on a fully funded basis.

Why Manage Currencies?

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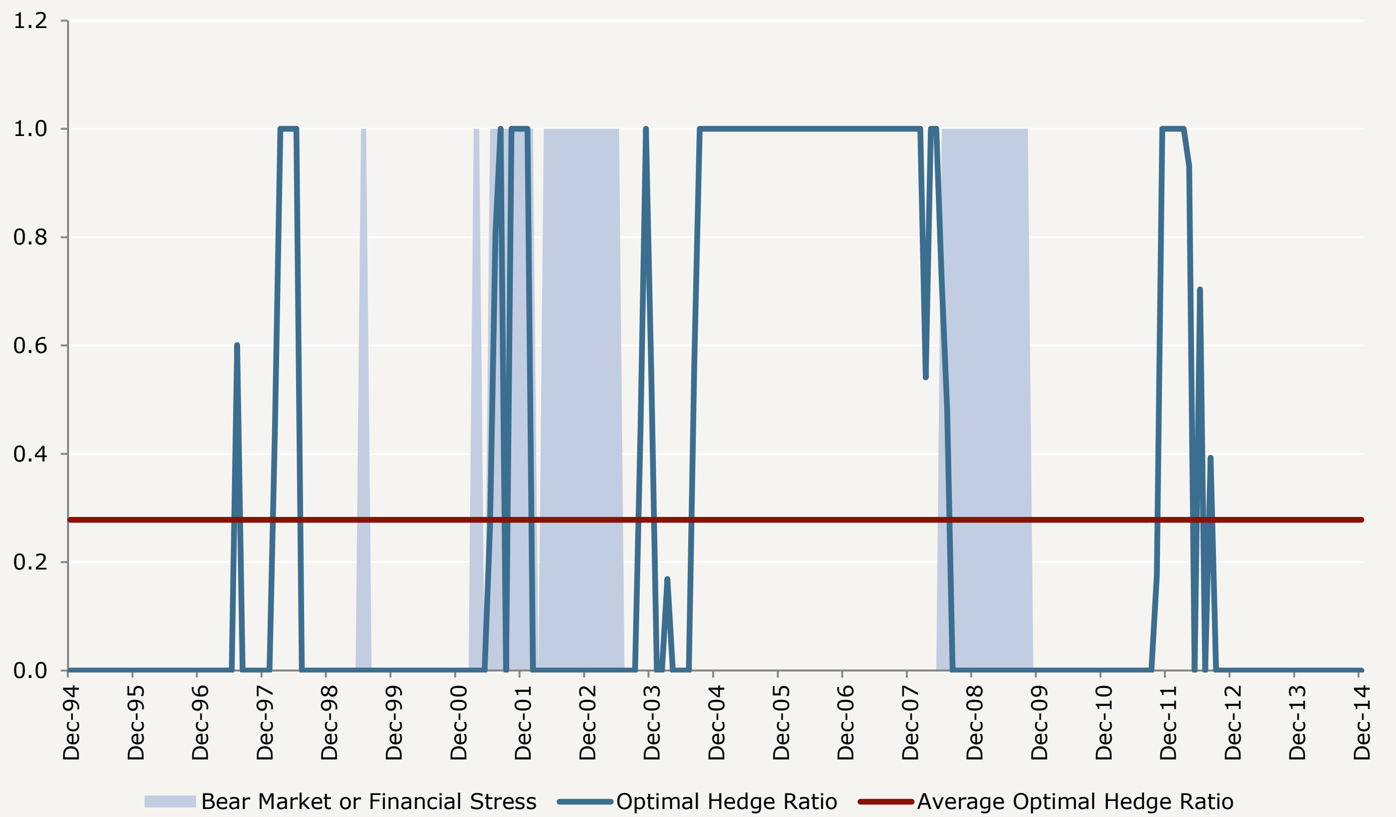
Optimal Hedge Ratio based on Return per Unit of Risk (Ex-post simulation – Rolling 1-year periods)



- The optimal hedge ratio has been highly variable over time.
- Foreign currency exposure tends to protect the portfolio in periods of market crisis.

Note: Bear Market or Financial Stress refers to periods with either falling equity markets or high equity volatility.

Sources: Thomson Reuters Datastream, MSCI Inc. and CIBC Asset Management

Can Value Be Created Sustainably? How?

Currency Factors could have Attractive Return Characteristics

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Investors are rewarded for taking certain systematic risks in the currency market:

Factor	Description	*15 year Information Ratio*	Performance in last year (in %)	Correlation to Equities	Correlation to Hedge Funds	Correlation to Canadian Bonds	Correlation to International Bonds
Carry	Buying the highest yielding currencies and vice versa	0.44	-0.09	0.43	0.43	-0.17	-0.47
Value	Buying currencies that are well below their fair value and vice versa	0.65	-0.09	-0.21	-0.35	-0.02	0.14
Cyclical	Buying currencies best positioned for the current global or domestic cycle and vice versa	1.35	0.18	0.06	0.05	-0.01	-0.07
Momentum	Buying currencies with strong momentum and vice versa	0.45	0.17	-0.21	-0.02	-0.06	0.13

The performance of each factor is based on a hypothetic portfolio constructed by CAM on the basis of proprietary rules. Performance is gross of fees.
Period: February 28th, 2000 to February 28th, 2015; Factors based on CIBC Asset Management research
Sources: Thompson Reuters Datastream & CIBC Asset Management Inc. This hypothetical scenario is shown for illustrative purposes only and is not indicative of future results. Please refer to the Disclaimer page for further information.

How a Layer of Judgment Improves Currency Investment Results

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Some important drivers of currency returns are non-quantifiable

- Government or Central Bank policy changes can be impactful

→ Changes in the energy policy (Japan, Indonesia, India)
→ Adoption of non-conventional policies
→ Russia/Ukraine conflict and the resulting economic sanctions

Some important quantitative information is not available for all currencies

- There is less data available for smaller or less developed countries
- Economic structure differs between countries

→ China does not have labour data available
→ Labour Remittances are important for some countries and inexistent for others

Providing Diversification Benefits

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Correlations to other asset classes

	MSCI WORLD	MSCI EM	DJ UBS	HFRI	INFRA	NAREIT	CIBC Active Unconstrained
MSCI WORLD	1.00	0.68	0.28	0.26	0.82	0.74	0.30
MSCI EM	0.68	1.00	0.34	-0.03	0.62	0.64	0.35
DJ UBS Commodity Index	0.28	0.34	1.00	0.10	0.27	0.19	0.03
HFRI (Hedge Fund Index)	0.26	-0.03	0.10	1.00	0.21	0.03	-0.16
INFRA (Infrastructure Index)	0.82	0.62	0.27	0.21	1.00	0.76	0.11
NAREIT (REIT Index)	0.74	0.64	0.19	0.03	0.76	1.00	0.22
CIBC Active Unconstrained	0.30	0.35	0.03	-0.16	0.11	0.22	1.00

- ***MSCI WORLD*** *MSCI WORLD*
- ***MSCI EM*** *MSCI Emerging Markets*
- ***DJ UBS*** *DJ UBS Commodity Index*
- ***HFRI*** *HFRI (Hedge Fund Index)*
- ***INFRA*** *INFRA (Infrastructure Index)*
- ***NAREIT*** *NAREIT (REIT Index)*
- ***CIBC Active Currency*** *CIBC Active Unconstrained*

As at December 31, 2014.
Data range is 10 Years with a 3-Year half life as of December 31, 2014.
Sources: Thomson Reuters Datastream, CIBC Asset Management Inc.

Concluding Remarks

Investment Implications

Currency volatility is unlikely to go away

- The lack of Fiscal and Monetary policy flexibility increases the focus on currency movement

Currency returns are large and do not sum to zero

- Currency returns can have an impact as large as your active equity managers

The optimal hedge ratio changes over time

- Currency characteristics change making the optimal hedge ratio a moving target

There are currency market factors but judgment is important too

- Factors can be combined to create a starting point for currency management
- Important drivers of currency returns are non-quantifiable

Foreign Currencies are a hidden opportunity in portfolios

- Currency strategies can be applied to most institutional portfolios

Appendix

Understanding Factor Behavior

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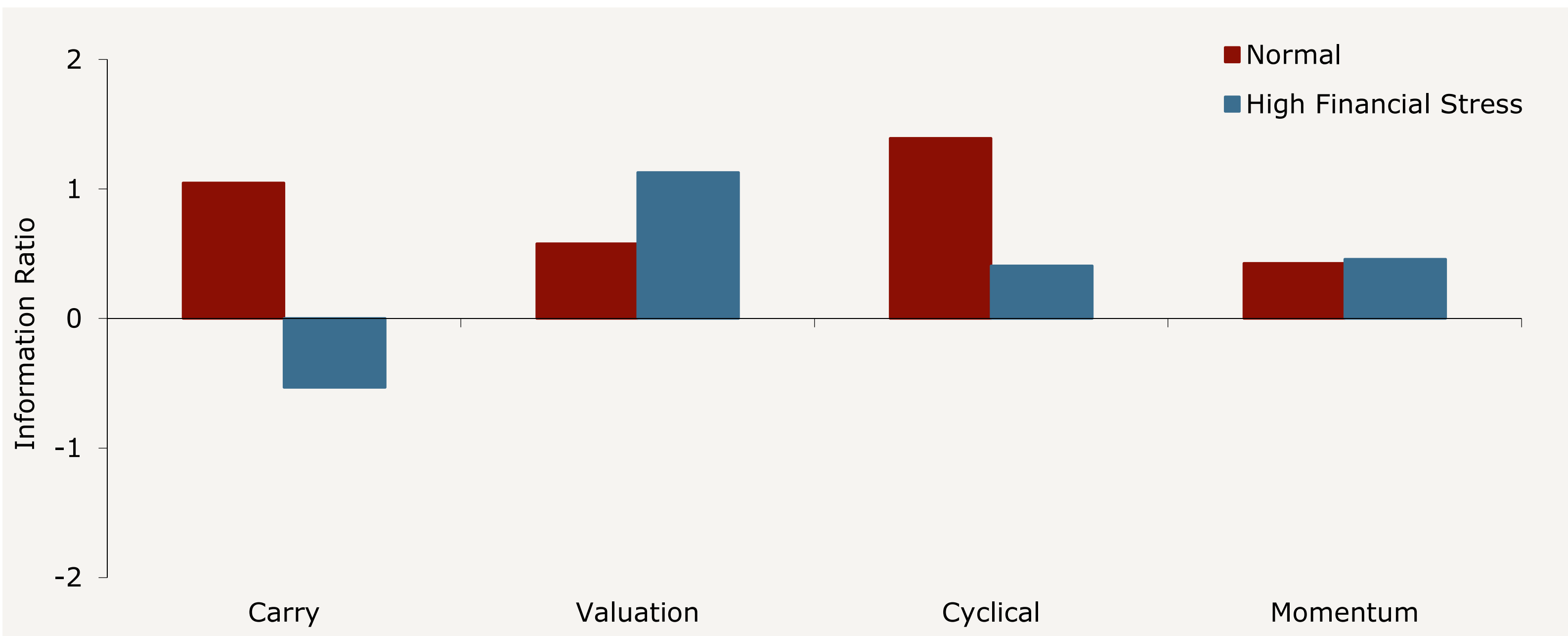
- Assess sensitivity of currency factors to macro economic and financial environment
- Ask if the model ranking is reasonable and sustainable
- Determine optimal factor exposures
- Increase or decrease currency positions appropriately

Factor Effectiveness During High Financial Stress

Risk-Adjusted Return: Normal vs Financial Stress Environment (Jan. 1998 to Apr. 2015)



Source: CIBC Asset Management

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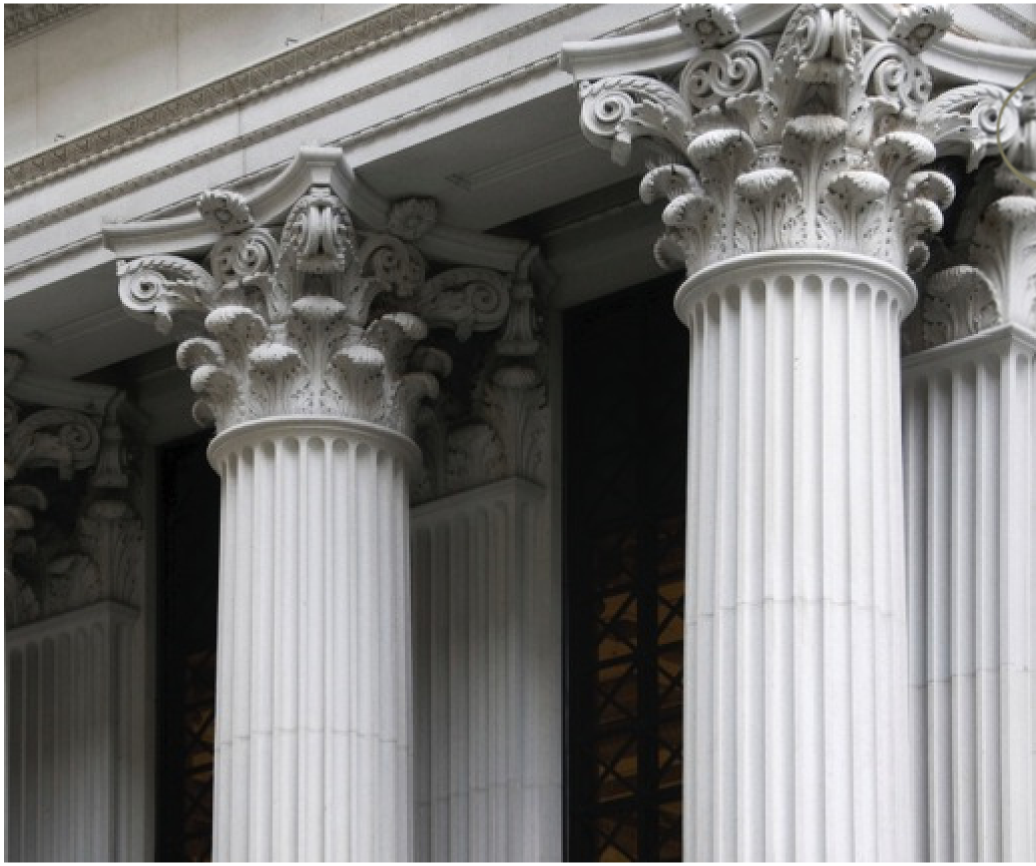

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