

CIO Academy

Foreign exchange as an “asset class”: how to treat FX in your investment process

29 June 2026



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Highlights: Currency exposure is unavoidable for any investor holding assets outside their home country. Yet FX is also more than a by-product of global investing: if managed deliberately, it can be thought of as a distinct “asset class” with its own return drivers, diversification properties, and risk management tools. This paper draws a central distinction between embedded FX exposure, the currency risk carried implicitly within overseas equities, bonds, and real assets, and intentional FX management via hedging or active overlay strategies. It equips investors with a practical framework for thinking about both, covering return drivers, its portfolio role, hedging design, and implementation choices.

- **From embedded risk to managed “asset class”:** FX is not an asset class in the traditional sense. But every overseas asset carries an implicit currency position, with its contribution to risk and return. This paper explains what FX exposure actually means in a practical world, how it can be measured and managed, and why treating it as a deliberate portfolio variable, rather than an incidental outcome, typically produces better risk-adjusted results.
- **Three systematic return drivers:** Carry, value, and momentum are the well-documented sources of FX risk premia. We set out how each works, why each can fail, and how they combine in systematic and discretionary strategies. We also address how macroeconomic fundamentals, central bank policy, growth differentials, and external balances, shape exchange rates over longer horizons.
- **Practical design and governance:** From hedging frameworks to overlay design choices and implementation instruments, this paper provides a structured foundation for conversations about why and how to manage FX as a portfolio tool.



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What is FX in a portfolio

Foreign exchange (FX) is the exchange of one currency for another. Exchange rates are quoted as currency pairs. The first currency is the base and the second is the quote (or counter) currency. For example, EUR/USD at 1.14 means one euro purchases 1.14 US dollars.

For most investors, FX enters a portfolio in two ways:

1. **Embedded exposure:** you hold foreign currency because you own overseas assets (e.g., US equities create USD exposure).
2. **Intentional exposure:** you choose to change or manage currency risk through hedging, forwards, or an active currency overlay.

It's also useful to distinguish between:

1. **Translation risk:** the home-currency value of a foreign asset changes when the exchange rate moves, even if the local asset price is unchanged.
2. **Economic risk:** longer-term effects on cash flows, purchasing power, and competitiveness from sustained currency moves.

For private investors, translation risk is the more immediately visible of the two, though both can be equally relevant over time.

Illustration: a UK-based investor buys a US equity fund which returns 10% in US dollar terms over the year. If GBP strengthens 8% against USD over the same period, the investor's GBP return falls to approximately 2%, despite strong equity performance. Run the scenario in reverse, sterling weakens 8%, and the return in GBP terms rises to approximately 18%.

This currency translation effect is entirely separate from the equity manager's skill; it is a portfolio risk that can be managed but cannot be ignored (but it too often is).

Why FX can be thought of as an "asset class"

The term "asset class" is often applied loosely but FX meets four practical criteria which should make it an asset class:

- **Scale and liquidity:** The BIS Triennial Survey recorded average daily FX turnover of about USD 9.6 trillion (April 2025). Major G10 pairs typically trade with deep liquidity and tight spreads.
- **Return relevance:** Currency moves can materially change the home-currency return of global assets (as reflected in the previous illustration) and returns usually follow well established patterns (see next section).
- **Diversification potential:** Systematic FX strategies have often shown low long-run correlation with equities and bonds. Correlations can rise in stress periods, but the diversification case is meaningful over time.
- **Implementation infrastructure:** FX can be accessed through spot, forwards, swaps, and options, supported by established market conventions and infrastructure.

Where FX returns come from

Three systematic drivers can explain much of the investable return in FX markets. Each behaves differently across market environments. Systematic strategies often combine these drivers in rules-based portfolios:

Carry:

- **What it is:** Borrow in a low-interest-rate currency, invest in a high-interest-rate currency, and pocket the differential. A carry strategy goes long high-yielding currencies and short low-yielding ones.
- **Why it may work:** High-yield currencies often do not depreciate as fast as uncovered interest parity theory suggests. The return is best understood as compensation for bearing downside macro risk: when global risk appetite deteriorates sharply, carry positions tend to unwind rapidly and painfully.
- **When it can fail:** Carry strategies can suffer sharp reversals ("carry unwinds") in risk-off periods. Returns often show negative skew (steady gains punctuated by occasional large losses). Rolling forward contracts can also erode net returns over time.

Value / Mean Reversion:

- **What it is:** Value strategies often use purchasing power parity (PPP) as a long-run anchor. If a currency looks expensive in PPP terms, value strategies expect gradual depreciation over time (and vice versa).
- **Why it may work:** Persistent PPP deviations create a fundamental anchor that tends to reassert itself over multi-year horizons – i.e. it works best in the longer term but can be uncertain in the short term. Central bank policy, trade flows, and capital allocation all eventually respond to significant misalignments.
- **When it can fail:** PPP deviations can persist for years. Value strategies require patience and tolerance for short-term underperformance. They are most useful as a medium-to-long-term anchor for currency positioning, not a tactical signal.

Momentum / Trend:

- **What it is:** Trend-following strategies go long currencies that have recently appreciated and short those that have recently depreciated, exploiting the tendency for exchange rate trends to persist over short-to-medium horizons.
- **Why it may work:** Similar to traditional asset

classes, trends may reflect the gradual adjustment

of capital flows to new information, herding behaviour among market participants, or the slow process by which monetary policy shifts are fully priced into currency markets.

- **When it can fail:** Momentum strategies suffer in range-bound, low-volatility markets and during sharp, sudden reversals. They require active management of positions and clear rules for when to exit.

Beyond systematic premia, exchange rates are influenced by macro fundamentals over longer horizons, including interest-rate differentials, growth and inflation divergence, external balances, and safe-haven flows. Central bank policy divergence can drive large, sustained moves; discretionary overlay managers may incorporate these views explicitly.

Lastly, another approach worth mentioning is volatility-selling. This strategy involves selling FX options to collect premium, effectively taking the view that realised currency moves will be smaller than what the market has priced in. However, it can fail sharply when risk sentiment turns, policy surprises hit, or volatility spikes, leading to large losses that can outweigh many small gains.



FX in portfolio construction

A currency programme can improve risk-adjusted outcomes by (1) reducing unintended currency volatility and/or (2) adding a return stream that may, in addition, help diversify equities and bonds.

The starting point is simple: FX risk already exists in global portfolios. Investors should decide whether to incorporate it in the decision to invest in foreign assets, consider managing it deliberately or accept it by default. We think this last option ignores the reality that FX can also have return, risk and diversification implications.

FX hedging: strategic framework by asset class

Hedging decisions are best made at the asset class, because currency volatility affects each asset differently.

- **Fixed income:** Currency volatility is a key factor for bond returns, particularly for investment-grade government bonds where the yield, and therefore the return available from the local asset, is modest. A 5–10% exchange rate move can easily erase or double a 2–3% annual yield. For this reason, the case for hedging foreign currency fixed income is usually more compelling than for other asset classes. Hedging costs do need to be weighed against the yield differential, as high hedging costs can eliminate the return advantage of the foreign bond entirely. However, when foreign short-dated yields are lower than for the home currency, hedging can add to returns.
- **Equities:** The higher inherent volatility of equities means that currency fluctuations, whilst material, usually represent a smaller share of total return variation. Over longer investment horizons, the case for leaving equities unhedged can be reasonable, particularly where the expected return from the equity allocation is high and the incremental hedging cost is significant. That said, unhedged equity exposure can introduce meaningful currency concentration risk (particularly USD for globally diversified investors). Investors approaching a known spending need (or a shorter time horizon) may consider reducing currency exposure as the horizon shortens. Leaving FX unhedged in equity portfolios is not without risk, however, as currency moves can themselves become a meaningful source of return volatility.

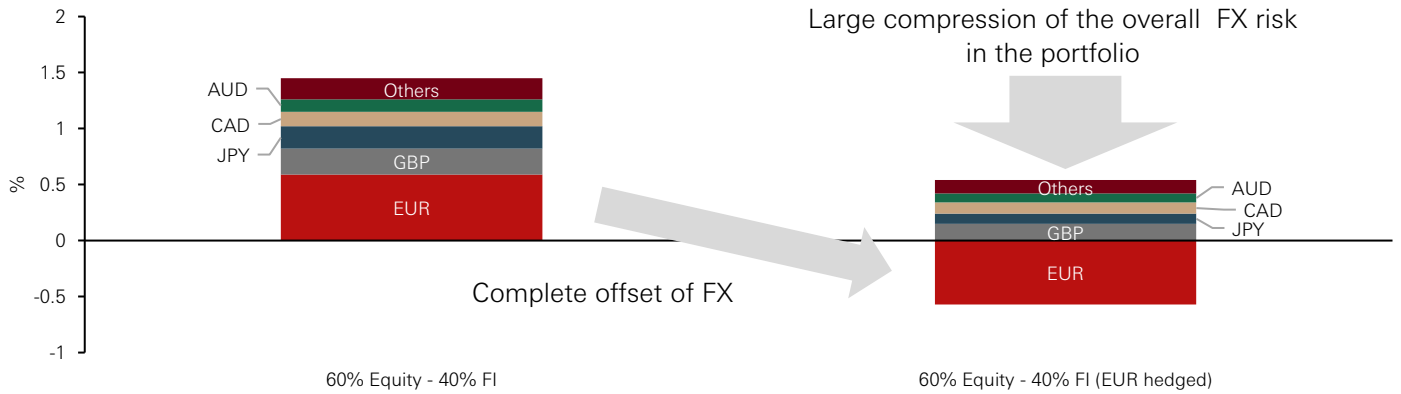
- **Alternatives:** The appropriate treatment varies with the risk profile of the strategy. Low-volatility alternatives, infrastructure, real estate, and certain hedge fund strategies, can behave more like fixed income in terms of their sensitivity to FX: currency movements can dominate returns, supporting the case for hedging. High-volatility alternatives, private equity, commodities, typically carry enough return dispersion that currency volatility is a smaller marginal contributor. Many alternative structures also impose operational constraints on hedging frequency.

It is important to be explicit about the opportunity cost of hedging. A forward hedge locks in the current exchange rate for a future date but eliminates all participation in any favourable currency move. In periods when the foreign currency strengthens, a fully hedged investor gives up that gain. Conversely, hedging protects against adverse moves. Investors should understand this asymmetry and incorporate it into their assessment of whether and how much to hedge, alongside the direct costs of the programme: bid-ask spreads, roll costs as contracts near expiry, and, for active overlays, management fees can be some of the direct costs. Moreover, as the hedge is typically done based on the current value of the underlying asset, the FX hedge can be excessive or insufficient if the asset falls or appreciates in value substantially.

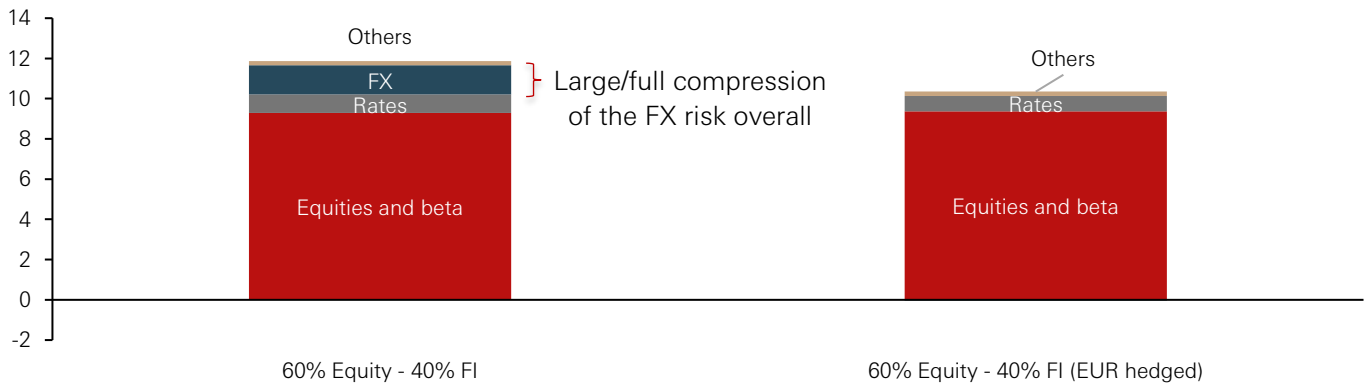
Illustration: a UK-based investor purchasing a property abroad at EUR 1,000,000 faces genuine economic FX risk, the final cost in GBP depends entirely on the EUR/GBP rate at the date of settlement. Using a forward contract to lock in the exchange rate at the time of the purchase agreement removes that uncertainty at a known cost, enabling precise financial planning. The option to purchase at a fixed rate instead preserves the potential to benefit from a favourable move in exchange rates, but at a premium.

Portfolio illustration: We look at the impact of FX hedging on a 60%-40% USD-denominated portfolio. In this exercise, we include a 6-month FX Forward (Buy USD, Sell EUR) for 60% of the total holding

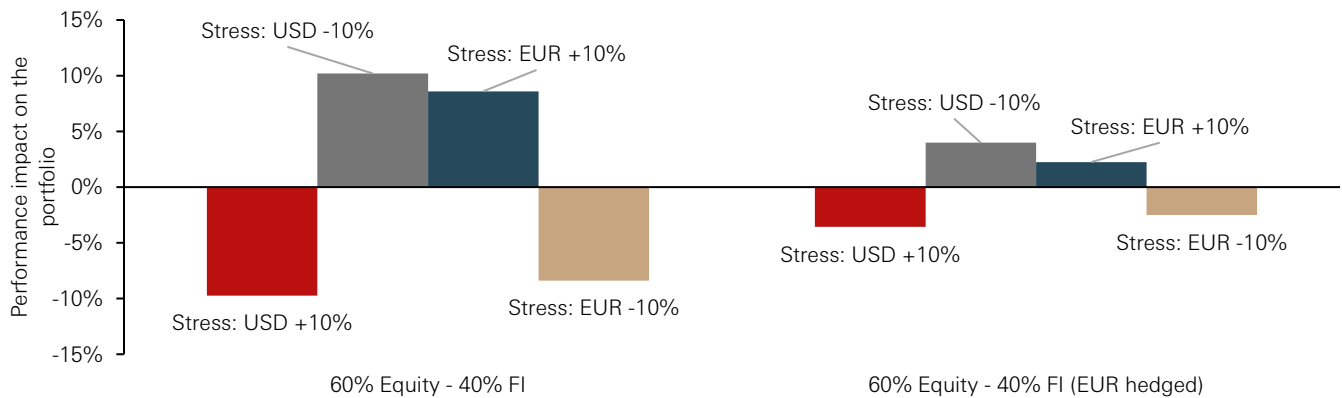
The contribution of EUR to the overall FX risk of the portfolio has moved from positive to negative, leading to an overall de-risking in overall FX exposure



The overall risk of the portfolio linked to FX has largely/fully disappeared



This allows to minimise drawdowns in times of strong depreciation in EUR, negatively affecting the EUR-denominated asset, while capping potential upside risks



Source: Aladdin for Wealth, HSBC Private Bank, as at 19 June 2026. Equity has been proxied by HSBC MSCI World Index, Global Fixed Income has been proxied by HSBC Global Investment Funds – Global Bonds AC and. Forecasts, forward-looking statements, views and opinions are subject to change without notice, are by their nature, subject to significant risks and uncertainties, and are not a reliable indicator of future performance.

Important consideration: Even after hedging, a portfolio, although diversified, retains residual FX sensitivity across asset classes. In Equities, currency moves affect corporate earnings, margins and competitive positioning regardless of any overlay. In bonds, they can feed through credit spreads, where issuers carry cross-currency liabilities. The hedge removes the denomination effect, but the underlying economics sensitivity remains.

Active vs Passive Currency Management

- **Passive currency management** applies a rules-based hedge to reduce a set proportion of foreign currency exposure (the hedge ratio). A 100% hedge ratio means fully hedged back to the base currency; 50% means half hedged.
- **Active currency management** seeks to add return while managing risk, by deviating from a benchmark hedge ratio when the investor has a well-founded view on the direction of exchange rates. An active overlay may go above investor's usual hedging ratio on currencies expected to depreciate, or below that ratio on currencies expected to appreciate.

In short, active currency management seeks to generate returns and reduce risks by taking deliberate currency views, whereas a passive approach simply hedges or accepts currency exposure without attempting to add value beyond risk reduction.

Two practical design concepts matter for any currency programme: rebalancing frequency, i.e. how often the hedge is reviewed and adjusted to reflect changes in underlying asset values, and tolerance bands, which defines how far the actual hedge ratio can drift from its target before a rebalancing trade is required.

When to deviate tactically

A well-designed strategic currency programme should not require constant revision. But there are circumstances in which a tactical adjustment to the hedge ratio or currency positioning may be warranted.

The most important consideration is that the relationship between FX and other asset classes can shift across market regimes. The US dollar, for example, has historically behaved as a safe-haven currency in risk-off environments, strengthening when equities fall, thereby partially offsetting equity losses for non-USD investors holding unhedged positions. That relationship has not been stable in recent times: in some episodes, the dollar has sold off alongside equities. An investor who relied on an assumed USD safe-haven offset without acknowledging this uncertainty would have been exposed to correlated losses.

A practical framework for considering tactical deviations from a strategic hedge might include the following triggers:

- **Material change in liabilities or time horizon:** An investor approaching a large foreign-currency expenditure may reduce their FX risk as the settlement date approaches.
- **Extreme valuation:** Where a currency is trading at a very significant premium or discount to its long-run PPP fair value, the case for a tactical view based on eventual mean reversion strengthens, although it does not necessarily lead to a shift.
- **Major rate divergence:** A sharp divergence in central bank policy trajectories, where one is aggressively hiking while another eases, may warrant a deliberate currency positioning decision.
- **Regime shift:** A structural change in the macro-economic environment, a material deterioration in a country's current or fiscal position, for example, may alter the long-run currency outlook in a way that warrants reviewing the strategic hedge ratio.

Implementation toolkit

A key structural feature of FX is that it is typically an unfunded exposure: positions via forwards or swaps generally don't require a separate cash allocation in the way equities or bonds do. This means an overlay is often sized by risk budget (how much volatility you're willing to allocate to FX), rather than by capital deployed, and that the range of options depends on clients' familiarity, risk appetite and other criteria.

Instruments

- **Spot transactions:** The immediate exchange of currencies at the prevailing market rate. The simplest and most widely used form of FX transaction; appropriate for converting proceeds, not for hedging future cash flows.
- **Forward contracts:** Agreements to exchange currencies at a fixed rate on a future date. Widely used to hedge known future exposures, property purchases, revenue conversion, scheduled payments. No upfront premium, but no participation in favourable market moves.
- **FX swaps:** A simultaneous spot transaction and forward transaction in the opposite direction, used to roll an existing hedge forward at expiry. Swaps account for the largest share of global daily FX turnover and are the primary mechanism through which currency overlays are maintained.
- **Options:** Give the buyer the right, but not the obligation, to exchange currencies at a predetermined rate. Options provide asymmetric protection, at the cost of an upfront premium. Appropriate for investors who require a defined floor without sacrificing all potential currency gain.

Market structure

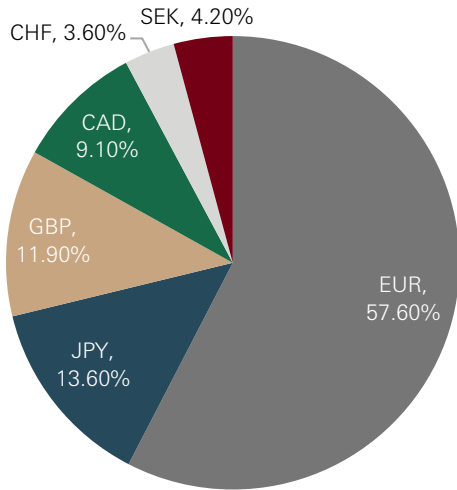
FX does not trade on a centralised exchange. It operates as an over-the-counter (OTC) market: transactions are negotiated directly between counterparties, predominantly through electronic platforms and interbank networks, 24 hours a day, five days a week. Participants span central banks, commercial and investment banks, multinational corporations, asset managers, and private investors. This diverse participant base sustains deep liquidity in the major G10 pairs under normal conditions.

Currency allocation

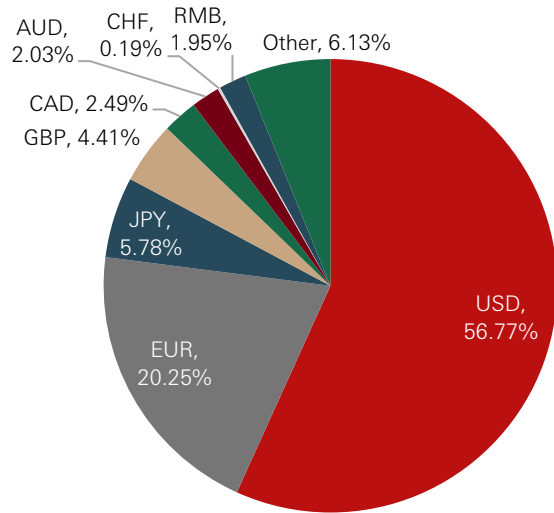
Finding the 'right' asset allocation is very tricky. It should depend on the investor's source of wealth and spending needs in the future. But it also needs to be tied to the reality that some currencies are much more often used and have a much bigger investable universe than others. To illustrate

different possible approaches, the four illustrations below show how a globally diversified portfolio might structure its currency exposure under different investment styles, including approaches aligned to common institutional benchmarks.

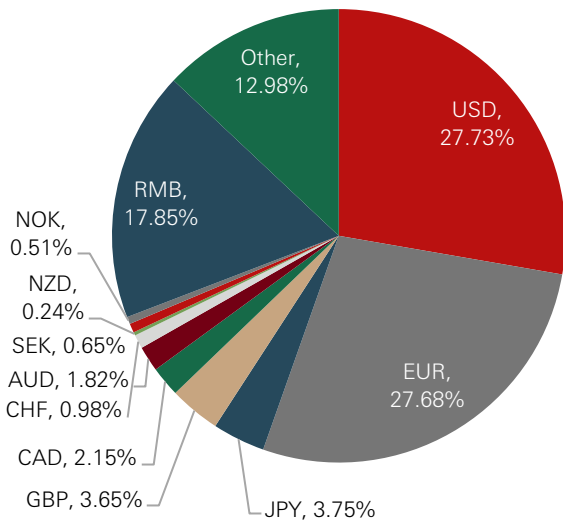
Dollar index-like allocation



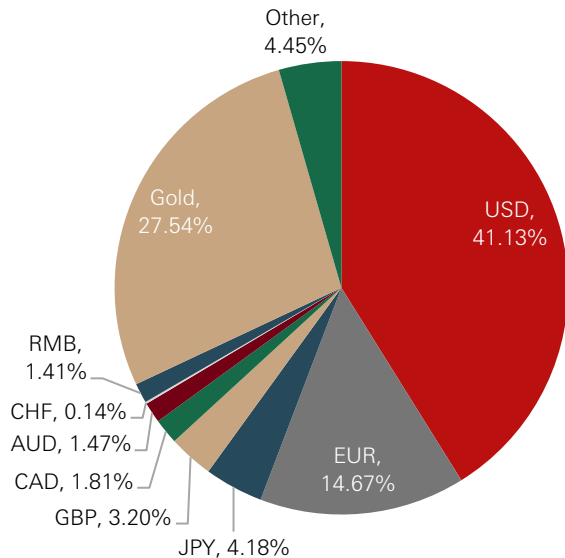
Global FX Reserves allocation



GDP-Linked allocation



Global Reserves allocation



Source: Bloomberg, IMF, HSBC Private Bank, as at 22 June 2026. This is for illustration purposes only.

Examples of currency allocations with more granularity

	Currencies	DXY-like	Global FX Reserves	GDP-linked	Global Reserves
G10	USD		56.77%	27.73%	41.13%
	EUR	57.60%	20.25%	27.68%	14.67%
	JPY	13.60%	5.78%	3.75%	4.18%
	GBP	11.90%	4.41%	3.65%	3.20%
	CAD	9.10%	2.49%	2.15%	1.81%
	AUD		2.03%	1.82%	1.47%
	CHF	3.60%	0.19%	0.98%	0.14%
	NZD			0.24%	
	SEK	4.20%		0.65%	
	NOK			0.51%	
EM	RMB		1.95%	17.85%	1.41%
	INR			3.55%	
	IDR			1.32%	0.12%
	KRW			1.65%	0.32%
	SGD			0.56%	0.22%
	ZAR			0.41%	
	TRY			1.40%	
	MXN			1.82%	0.15%
	BRL			2.26%	0.29%
Commodities	Gold			3.55%	27.54%
	Other		6.13%	12.98%	4.45%
Total		100%	100%	100%	100%

Source: Bloomberg, IMF, HSBC Private Bank, as at 22 June 2026. This is for illustration purposes only.

Risks, pitfalls, and good practice

Managing FX deliberately does not eliminate currency risk; it redistributes it. The following risks apply to any currency programme and should be understood clearly before implementation.

- **FX volatility:** Currency moves can be large, rapid, and difficult to predict. A poorly timed or misaligned hedge can create mark-to-market losses even as the underlying assets perform well.
- **Liquidity in stress:** Major G10 pairs are adequately liquid under normal conditions, but spreads can widen sharply during periods of market stress, raising the cost of adjusting or exiting positions precisely when doing so may be most important.
- **Carry and roll risk:** Carry strategies can unwind rapidly during risk-off episodes. Forward contracts and swap positions incur roll costs at expiry that erode net returns over time if not actively managed.
- **Counterparty and settlement risk:** OTC FX transactions carry the risk that the counterparty might fail to settle. This risk is mitigated by transacting with regulated counterparties, using ISDA master agreements, and centralising clearing where available.
- **Emerging market risk:** EM currency pairs carry additional risks: wider spreads, lower liquidity, potential capital controls, and higher sensitivity to global risk appetite. EM FX strategies require a higher governance standard and explicit risk limits.
- **Operational risk:** FX is operationally intensive, settlement cycles are short, cut-off times are strict, and confirmation processes are critical. A missed confirmation, an error in a trade instruction, or a mismatch between portfolio and hedge notional can generate losses that have nothing to do with the underlying currency view.
- **Leverage risk:** In FX markets, positions are traded on margin, meaning investors control large notional exposures by posting only a small amount of capital as collateral, amplifying both gains and losses relative to the underlying move.

Conclusion: Practical takeaways

FX is not a speculative overlay on an otherwise 'clean' portfolio. For any investor who holds assets outside their home currency, FX exposure already exists, the only question is whether it is managed deliberately or left to accumulate by default. The following rules of thumb are intended as a practical starting point for that conversation:

- **Identify your embedded exposure first.** Map the

currency composition of your portfolio before considering any active management. Most investors are more USD-concentrated than they realise once global equity and bond allocations are considered.

- **Consider hedging fixed income before equities.** For bond allocations, currency volatility is likely to dominate returns; the case for hedging is typically strongest here. For equities, the higher underlying volatility means the decision is more nuanced and horizon-dependent.
- **Size currency risk in risk-budget terms, not capital terms.** Because FX overlays are largely unfunded, the relevant question is not how much capital to allocate, but how much portfolio volatility you are willing to attribute to currency movements. Align this with your overall risk tolerance.
- **Combine the risk premia rather than relying on one.** Carry, value, and momentum perform differently across market environments. Systematic strategies that diversify across all three have historically demonstrated more stable risk-adjusted returns than single-factor approaches.

FX is, ultimately, a portfolio tool, one with genuine diversification potential, documented return drivers, and a range of practical implementation choices. Approached with appropriate governance, clear objectives, and realistic expectations of cost and risk, it can contribute meaningfully to portfolio outcomes. That contribution begins, as with most areas of sound investment practice, with clear thinking about what you already own.

Additional thought: A useful discipline for any investor with currency exposure is to decompose total return into its components: local asset return + currency return + hedge impact (net of costs). This attribution framework makes it transparent whether the currency dimension of a position is adding or subtracting value, and whether the cost of the hedge programme is proportionate to the risk it is removing. Without this clarity, it is difficult to make informed decisions about what, why and how to adjust.

Risk Disclosures

Risks of investment in fixed income

There are several key issues that one should consider before making an investment into fixed income. The risk specific to this type of investment may include, but are not limited to:

Credit risk

Investor is subject to the credit risk of the issuer. Investor is also subject to the credit risk of the government and/or the appointed trustee for debts that are guaranteed by the government.

Risks associated with high yield fixed income instruments

High yield fixed income instruments are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default. The net asset value of a high-yield bond fund may decline or be negatively affected if there is a default of any of the high yield bonds that it invests in or if interest rates change. The special features and risks of high-yield bond funds may also include the following:

- Capital growth risk - some high-yield bond funds may have fees and/ or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and
- Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/ or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.
- Vulnerability to economic cycles - during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

Risks associated with subordinated debentures, perpetual debentures, and contingent convertible or bail-in debentures

- Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures - Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. contractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of non viability.

These features can introduce notable risks to investors who may lose all their invested principal.

Contingent convertible securities (CoCos) or bail-in debentures are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.

Investors should note that their capital is at risk and they may lose some or all of their capital.

Changes in legislation and/or regulation

Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment.

Nationalisation risk

The uncertainty as to the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bond seniority would be compromised following nationalisation.

Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

Risk disclosure on Dim Sum Bonds

Although sovereign bonds may be guaranteed by the China Central Government, investors should note that unless otherwise specified, other renminbi bonds will not be guaranteed by the China Central Government.

Renminbi bonds are settled in renminbi, changes in exchange rates may have an adverse effect on the value of that investment. You may not get back the same amount of Hong Kong Dollars upon maturity of the bond.

There may not be active secondary market available even if a renminbi bond is listed. Therefore, you need to face a certain degree of liquidity risk.

Renminbi is subject to foreign exchange control. Renminbi is not freely convertible in Hong Kong. Should the China Central Government tighten the control, the liquidity of renminbi or even renminbi bonds in Hong Kong will be affected and you may be exposed to higher liquidity risks. Investors should be prepared that you may need to hold a renminbi bond until maturity.

Alternative Investments

Hedge Fund - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

Private Equity - Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

Risks of investing in private markets

The value of investments and any income from them can go down as well as up and investors may not get back the

amount originally invested. Past performance information presented is not indicative of future performance. The return and costs may increase or decrease as a result of currency fluctuations.

- **Liquidity Risk** - Investors may be unable to dispose of an investment quickly and at a price that's closely related to recent similar transactions. There is no guarantee of distributions and no established secondary market.
- **Event Risk** - A significant event may cause a substantial decline in the market value of all securities.
- **Long-term Horizon** - Investors should expect to be locked-in for the full term of the investment, which is subject to extensions.
- **No Capital Protection** - Investors may lose the entirety of invested capital.
- **Unpredictable Cashflows** - Capital may be called and distributed at short notice.
- **Economic Conditions** - Ability to realise/divest from existing investments depends on market conditions and the regulatory environment.
- **Risk of Forfeiture** - Failure to make call payments could result in forfeiture of commitment, including invested capital, without compensation.
- **Default Risk** - in the event of default investors risk losing their entire remaining interest in the vehicle and may be subject to legal proceedings to recover unfunded commitments.
- **Reliance on Third-party Management Teams** - Underlying investments will be managed by various third-party management teams that will in aggregate determine the eventual returns for the investor.

The risk factors listed above are not exhaustive, always refer to product specific documentation for full details and risk disclosures.

Risk disclosure on Emerging Markets

Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more established economies and/or securities markets. Such risks include (a) the risk of nationalisation or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (e) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

Risk disclosure on FX Margin

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer.

Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

The leverage of a product can work against you and losses can exceed those of a direct investment. If the market value of a portfolio falls by a certain amount, this could result in a situation where the value of collateral no longer covers all outstanding loan amounts. This means that investors might have to respond promptly to margin

calls. If a portfolio's return is lower than its financing cost then leverage would reduce a portfolio's overall performance and even generate a negative return.

Currency risk – where product relates to other currencies

When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

Chinese Yuan (“CNY”) risks

There is a liquidity risk associated with CNY products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

CNY is currently not freely convertible and conversion of CNY through banks in Hong Kong and Singapore is subject to certain restrictions. CNY products are denominated and settled in CNY deliverable in Hong Kong and Singapore, which represents a market which is different from that of CNY deliverable in Mainland China.

There is a possibility of not receiving the full amount in CNY upon settlement, if the Bank is not able to obtain sufficient amount of CNY in a timely manner due to the exchange controls and restrictions applicable to the currency.

Illiquid markets/products

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