PRESS RELEASE

TCX Hedges $1 Billion of New Loans to ‘Frontier’ Markets in 2017 as Demand Surges for Volatile Currency Risk Cover

Market-Making High Yield Local Currency Bonds Helps TCX Underwrite More Hedges

Amsterdam, 11th January 2018 – TCX Fund, the pioneer in covering the currency risk of loans to companies and institutions in emerging or developing countries, hit a major milestone in 2017 by hedging the foreign exchange exposure of more than $1 billion of new loans.

Last year’s record activity was due to more development agencies and microfinance institutions stepping up their cover for “frontier market” currency risks and as investors sought new untapped sources of high yielding assets in the low interest rate environment. This enabled Amsterdam-based TCX to grow the total amount of outstanding secured loans that it hedged to $1.8 billion at the end of last year.

The Costa Rican colon, the Georgian lari and the West-African CFA franc were the top three currencies hedged by TCX in 2017. New to its portfolio are the Pakistani rupee, Sierra Leone’s leone, Madagascar’s ariary, the Ukrainian hryvna and the Serbian dinar.

TCX’s CEO, Ruurd Brouwer, expects the momentum from 2017 to continue as development finance institutions increasingly recognize that their borrowers should not be exposed to currency risk. Removing the foreign exchange volatility prevents their clients from potential default scenarios when their local currency depreciates suddenly, a regular occurrence in frontier economies. “The potential is enormous, because currently less than 10% of development loans are hedged.”

TCX just received a €22.5 million subordinated loan from the German Ministry of Development Cooperation (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung). This strengthens TCX’s pool of capital, allowing it to underwrite more currency hedges.

Apart from attracting money itself, TCX can realise further growth by selling on part of its currency risk. Already it has sold 25% of the risks to third party investors, increasingly in the form of high-yield bonds issued in cooperation with its AAA rated shareholders, denominated in local currencies.

Ruurd Brouwer concluded: “This market is in its infancy, and it’s one that we actually created ourselves. Our loan hedging capacity is growing strongly because investors are increasingly willing to invest in the currencies of frontier markets in their search for yield and that means we can sell on more of our own risk. This is TCX’s future growth model.”

Notes to Editors:

About TCX

TCX celebrated in 2017 the 10th anniversary of its foundation by the Dutch development bank FMO, which remains one of its shareholders. The core task of the fund is to hedge the currency risk on foreign (long-term) development loans when it is not commercially available. TCX is the only institution in the world which offers this service in scale.

Most foreign loans are in hard currencies, such as the dollar. However, borrowers earn their money in volatile local currencies whose value often fluctuate strongly. If a local currency depreciates substantially after the signature of a loan agreement, the borrower faces difficulties in servicing the loan and may default. When TCX takes over the foreign exchange risk, it compensates the creditor for the local currency's loss. Conversely, the fund makes its money when a local currency appreciates. In this way, profits and losses offset each other in the diversified TCX portfolio, consisting of more than 50 currencies.

TCX is active in Africa, Asia, Latin America and Eastern Europe. Shareholders in the TCX fund are development banks (such as FMO, EBRD and EIB) and microfinance institutions. The German and Dutch government and microfinance institutions have provided loans to TCX.

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