



TCX launches frontier currency bond index

Index is first-ever and promotes a new asset class

AMSTERDAM, March 31, 2021 – The Currency Exchange Fund ([TCX](#)) launches the first-ever frontier bond currency index ([TCX FI](#)). The informative index tracks the performance of frontier currency-linked, investment-grade Eurobonds, issued by (multilateral) development finance institutions such as the African Development Bank, EBRD, FMO, and the IFC. The TCX FI currently covers 77 bonds in 20 frontier currencies where TCX has acted as hedging counterparty to the issuer. During a 3-year back-testing, the index outperformed a comparable EM-currencies portfolio in risk-return and diversification terms.

The uniqueness of the index lies in its underlying exposure. It includes frontier currencies such as the Uzbekistani Som, Honduran Lempira, Tanzanian Shilling, and Vietnamese Dong, which are not covered by existing indices. TCX calculates bond price information from the valuation of the bond's hedges outstanding in its books.

Frontier debt is gaining traction among investors looking for alpha generation and portfolio diversification. The asset class remains underinvested due to high illiquidity, perceived risk, and accessibility concerns.

TCX has been set up specifically to provide currency risk protection to hard currency borrowers in countries where the market fails to deliver solutions.

The proceeds of the Frontier currency-linked Eurobonds fund institutions whose mission is to create impact in developing countries whilst applying the highest ESG criteria in the industry. Settled in euros or dollars, the bonds provide an accessible road to frontier currency exposure with minimal credit risk and no transfer and convertibility risk. The development of the index was made possible by the German Ministry of Economic Cooperation and Development, BMZ.

Ruurd Brouwer, [TCX's CEO](#) states:

"Frontier currency bonds offer a unique combination of investment-grade credit risk with the market risk and return of frontier market currencies. Through TCX, the bonds redistribute currency risk from enterprises and financial institutions in frontier markets that cannot bear it, to asset managers and pension funds in the West that seek the additional return that comes with the risk. The index is an important step in generating visibility and transparency in this high impact asset class, showing that the real risk-return profile is better than the perceived one".

Background information

[TCX](#) is an International Financial Institution that offers long-term currency protection in 100+ financial markets where such products are not available or poorly accessible. The Fund started operations in 2007 and has since then provided hedging instruments for USD 8.5 billion of total volume, spread over 3500+ transactions. The Fund has exposure for more than USD 5 billion in 60 frontier and emerging market currencies. By partially selling this exposure to private investors, TCX creates markets and gives these countries access to the international capital markets.

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