



## ***CAPITAL MOBILISATION, PRESERVATION AND GROWTH – MANAGING RISK FOR MAXIMUM RETURNS***

*Innovative risk transfer/mitigation instruments and how these techniques are helping to mobilize capital in a low yield environment? While building resilience*

July 2022

# Impact Pillars

## **Pillar 1: De-risking development finance through local currency solutions**

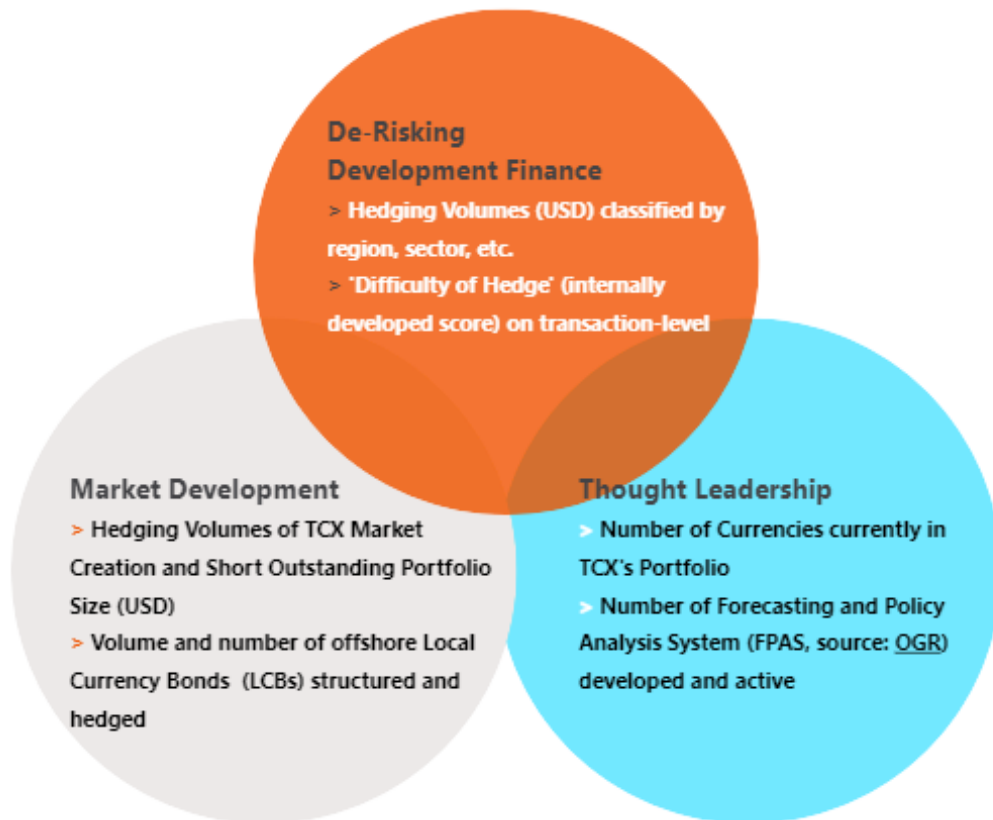
TCX core function is to de-risk development finance investors globally by absorbing and managing the currency risk of loans provided. This increases the risk-resilience of the impact generated by these investments and their corresponding contribution to the SDGs.

## **Pillar 2: Developing markets through risk reallocation**

TCX redirects part of the currency risk it takes on its balance sheet to participants in international financial markets, contributing to market efficiency and transparency and the development of offshore local currency markets.

## **Pillar 3: Increasing awareness through advocacy and thought leadership**

TCX plays a crucial role in advocating for local currency finance by increasing awareness and understanding of currency risks. The local currency ecosystem expands through partnerships with international institutions and local parties in emerging and frontier markets countries.





## Pillar 1: Key figures

**Available  
Currencies**  
110

**Hedged  
since 2007**  
USD > 10bn

**Trades since  
2007**  
>3800

**Live book**  
USD 3.5bn

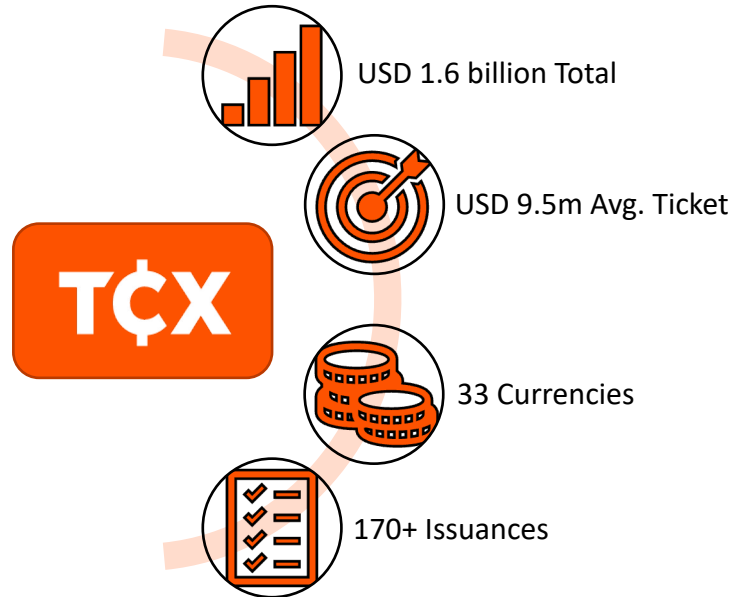
**Live trades**  
>1200

**Capital**  
USD 1.25bn

**Rating S&P**  
A stable

**Live  
currencies**  
56

# Pillar 2: TCX LCY Notes Program - Key Figures



TCX

## - CURRENT ISSUERS -



## - CURRENCIES ISSUED

UZS	KGS	LBP	HNL	GEL	XOF	AMD
TND	XOF	BOB	LKR	MMK	TJS	UAH
HTG	GTQ	CRC	RWF	PKR	PGK	AZN
TZS	CDF	DZD	KES	RSD	VND	

# Key takeaways

*Innovative risk transfer/mitigation instruments and how these techniques are helping to mobilize capital in a low yield environment?*



Still appetite for LCY Bonds in the markets despite USD rate rise and HCY issuances slowing down

Contributing to capital market development by raising investors' interest for more illiquid currencies ( risk transfer) and building the (offshore) LCY curve( resilience)

## ADVANTAGES

New way ( Investors group) to access more sustainable capital mobilization through (synthetic) local currency notes ( FX risk)



Currently limited ticket sizes

Maturities usually between 2/3 years

## CHALLENGES / LIMITS

Valuation, accounting &liquidity

Still need to develop local capital markets in the long term



If local markets aren't deep enough an option might be to buy some LCY issuances to avoid currency mismatch

## CONCLUSIONS

Need for collaboration to build the ecosystem and make the link between offshore and onshore thus bringing new and sustainable mobilization resources

Thank you!



For more information please contact:

Isabelle Lessedjina | [communications@tcxfund.com](mailto:communications@tcxfund.com)

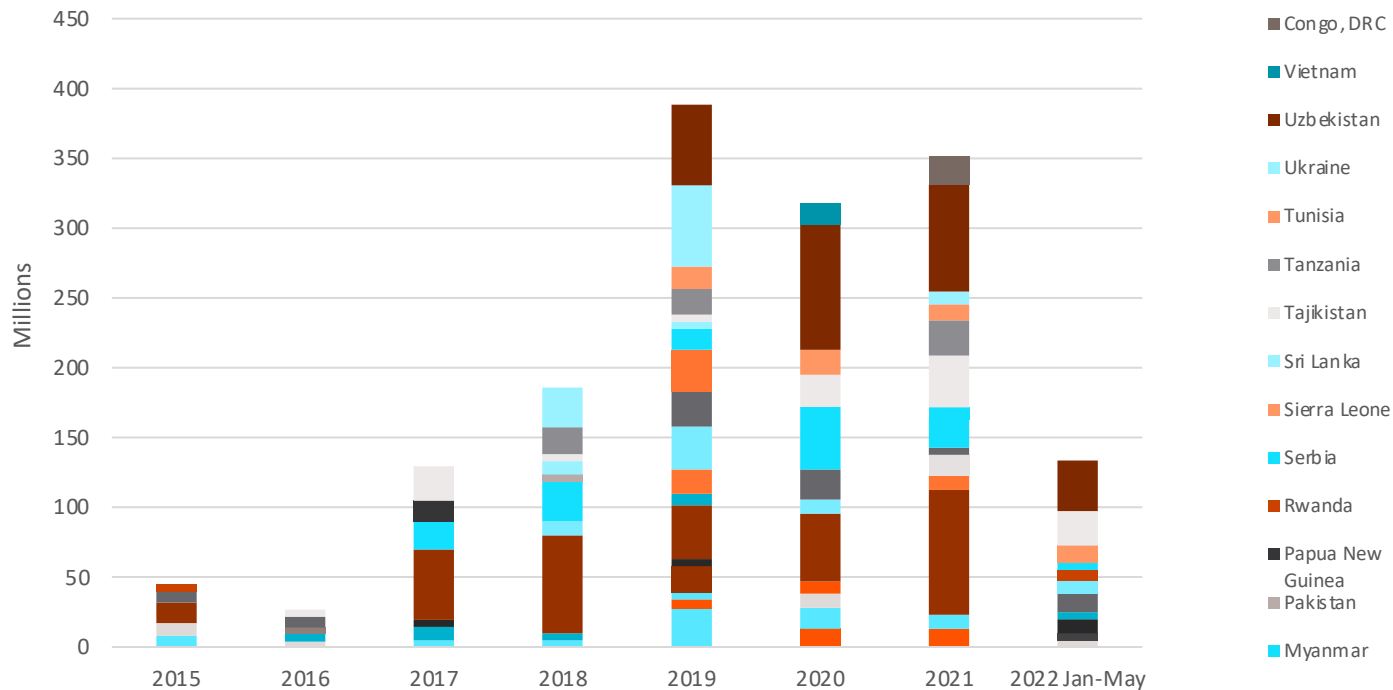


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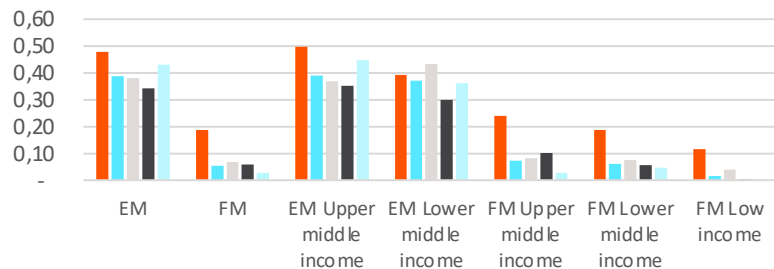
# TCX Program - Breakdown Year/Currency





# Local Markets Development Supports Sustainable Growth

Country classification vs. Financial Development



■ Financial Development Index  
■ Financial Markets Index  
■ Financial Markets Depth Index  
■ Financial Markets Access Index  
■ Financial Markets Efficiency Index

Financial Markets Index (Depth + Access + Efficiency)

■ Less than 0.20 ■ 0.44 to 0.64 ■ 0.30 to 0.44 ■ 0.20 to 0.30 ■ More than 0.64

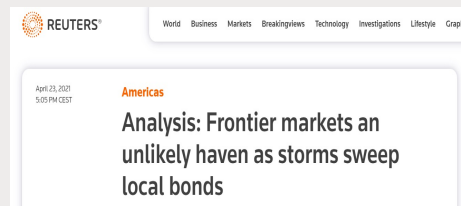
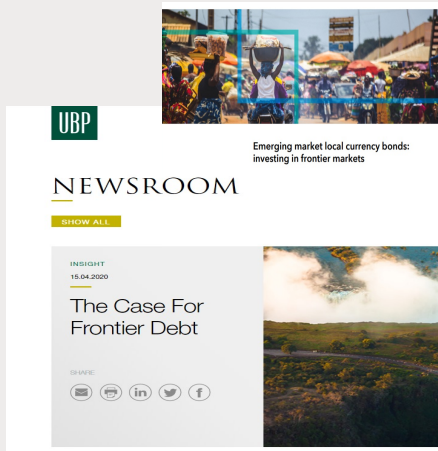
- Deeper local currency financial markets increase countries' ability to withstand volatile capital flows
- Reduces reliance on foreign borrowing and currency mismatch risks

- Contribute to reduce current account imbalances
- Allow for better balance sheet & reserve management
- Improve macroeconomic policy shock-response

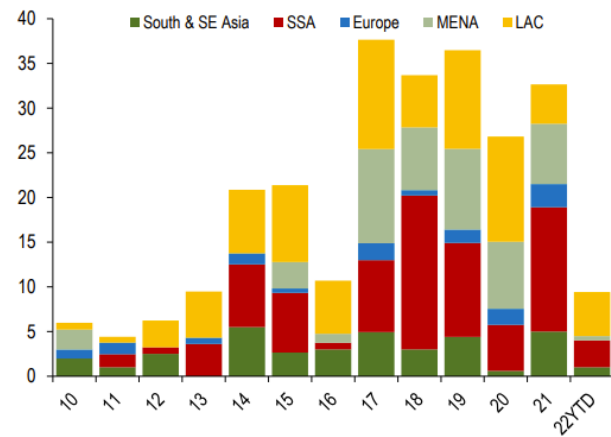
1. Sources: IMF Data (2019), TCX

2. Sources: IMF, The World Bank Group, Guidance Note For Developing Government Local Currency Bond Markets (March 2021), TCX Theory of Change (2018)

# Does Frontier Debt still have Traction Among Investors?



**Chart 10. Frontier Sovereign Issuance by Region (USD billions)**



- Frontier HCY eurobond's market cap tripled in the past six years, reaching around USD\$230Bn across 35 countries
- Strong appetite for frontier issuers despite pandemic; USD30+Bn HCY sovereign bonds issued in 2021 ( vs 27 BN in 2020) but declining in 2022 <sup>1</sup>
- Heavy oversubscription for recent issues<sup>2</sup>
- Surge of frontier dedicated debt funds with blended currency approach (HCY/LCY)<sup>3</sup>
- Stand-alone, regional, and EMD index industry coverage expansion<sup>4</sup>

1. Sources: Reuters (Apr 2021), UBP (Apr 2020) Aberdeen (Nov 2020, Sep 2019), IMF EM and FM Markets issuance Monitor (Jun 2022)  
2. Ghana (Mar 2021, 2x), Côte d'Ivoire (Nov 2020, 5x), Bahamas (Oct 2020 0.8x)

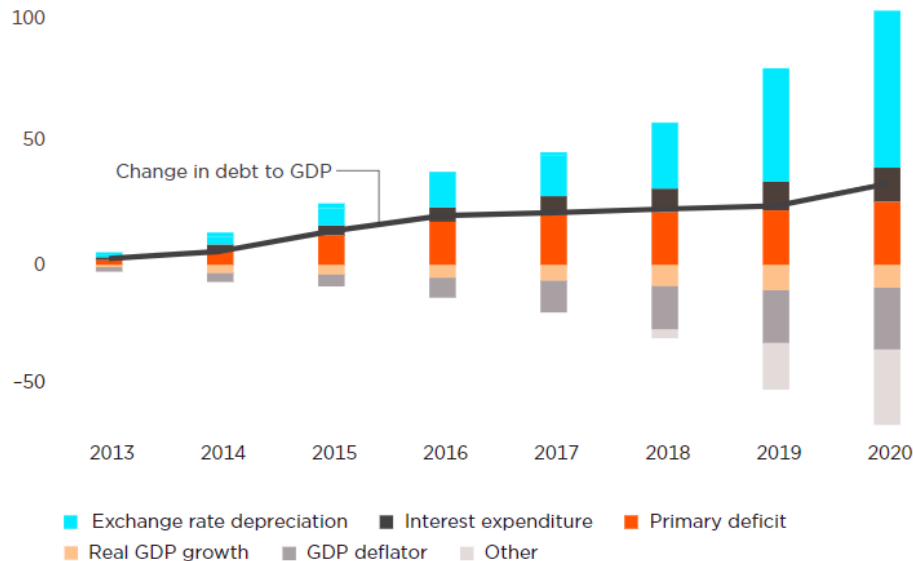
3. E.g., UBP (April 2020), Coelis (April 2021)

4 E.g., AfDB/AFMISM Bloomberg African Bond Index (ABABI), Potential inclusion of Egypt and Ukraine LCY debt in JPM GBI-EM

## Exchange rate depreciation has been the major driver of Africa's debt levels over the past years, causing a cumulative increase in debt of more than 50% between 2013-2020

### Decomposition of drivers of Africa's debt

Cumulative change (percentage points)



Source: African Development Bank statistics and the IMF World Economic Outlook database

### IDA during the IDA-19 replenishment: (local currency finance in IDA countries, paper II)

“FX risk in the external public borrowings of many IDA countries represents one of the biggest financial risks, and the potential impact is intensified by weakening debt sustainability.”

### IMF Regional Economic Outlook Sub-Saharan Africa 2022:

Governments will face three immediate challenges over the short run:

1. Addressing the economic impact of the war in Ukraine without adding to debt vulnerabilities
2. Balancing inflation versus growth
3. Managing exchange rate adjustment



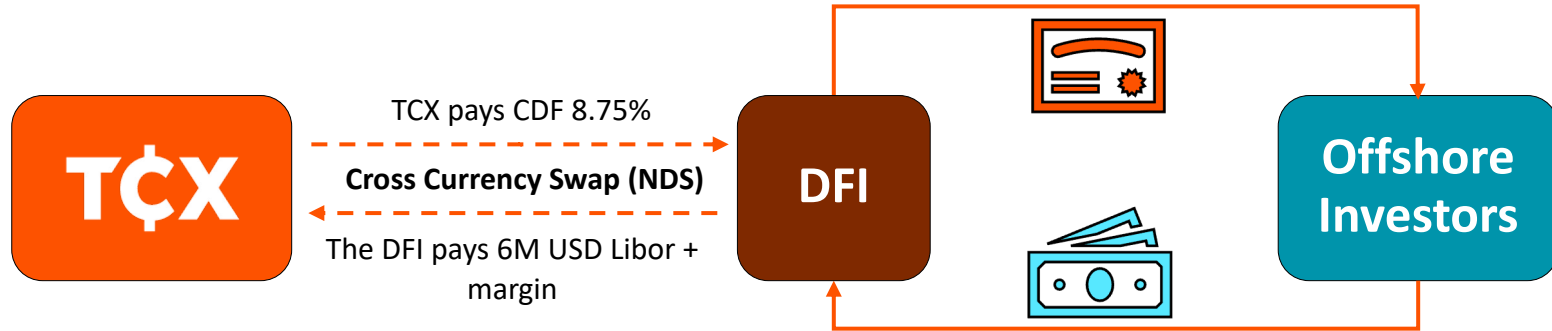
# TCX FI Index

Figure 3. Frontier Markets Debt Taxonomy<sup>10</sup>

	FRONTIER HARD CURRENCY DEBT	FRONTIER LOCAL CURRENCY DEBT	TCX FRONTIER CURRENCY BOND INDEX
SUB-CATEGORY	HARD CURRENCY DENOMINATED EURO BONDS	LOCAL CURRENCY BONDS	LOCAL CURRENCY LINKED EURO BONDS
SETTLEMENTS	HARD CURRENCY EUROCLEAR / CLEARSTREAM	LOCAL CURRENCY	HARD CURRENCY EUROCLEAR / CLEARSTREAM
# OF COUNTRIES REPRESENTED	80	87 (INVESTABLE)	43
PRICE DYNAMICS	EMD-ALIKE, GLOBAL RISK APPETITE, HIGHER RATING DEPENDENCY	MOSTLY IDIOSYNCRATIC - POLITICAL, LOCAL MACRO	MOSTLY IDIOSYNCRATIC - POLITICAL, LOCAL MACRO
ESTIMATED SIZE ISSUED TO DATE	USD 1.2TN	USD 1.3TN	USD 24.0 BN
AVERAGE YIELD / DURATION	6.5% / 6.1 YRS	10.4% / 3.6 YRS	9.2% / 3.0 YRS
ISSUERS	SOVEREIGN, QUASI-SOV, CORPORATES	SOVEREIGN, DFIs CORPORATES	SOVEREIGN, DFIs CORP PF RELATED

## Pillar 2: Example -Synthetic Note in CDF

- Principal Amount: CDF 39,710,000,000
- Maturity: 14 months
- Interest Rate: CDF 8.75% Actual/365 (Fixed)
- USDCDF Reference Rate: Reuters



- The DFI receives USD 20,000,000 in proceeds