

Press Release



Contact: Louisa Bartoszek
+44 20 7163 2826
louisa.bartoszek@bnymellon.com

High market volatility impacts currency overlay performance in third quarter

LONDON, December 15, 2008 – Statistics released today by BNY Mellon Asset Servicing show that median excess returns for currency overlay managers were negative during the third quarter of 2008. During this period, currency overlay managers returned on average -0.84%, which is the lowest return that that BNY Mellon has recorded since the company started to measure currency overlay manager performance in 2001.

This is the third negative quarterly return that BNY Mellon has recorded in the last year, and means that over a one year period the median excess return was a disappointing -0.96%.

Currency overlay managers also failed to add value over the medium term, with median excess returns of -0.35% p.a. and -0.24% p.a. over three and five years respectively. They did, however, have more success over longer term periods, and over seven and 10 years achieved median returns in excess of their benchmarks of 0.30% p.a. and 0.16% p.a. respectively.

Commenting on the results, Nick Rogers, BNY Mellon Asset Servicing's Senior Technical Specialist, said: "Like many other assets, currency was characterised by high volatility during Q3 2008. We saw sterling weaken against the yen and the US dollar, whilst the US dollar staged a strong recovery against the euro. If we view through style, the main component of this quarter's disappointing return was the weak performance of dynamic managers who fell over 2%. Fundamental managers returned around -0.8% whilst technical managers achieved a small positive performance. A high concentration of US dollar and yen managers with 0% hedge ratios in the analysis, meant the strong performances of these currencies were muted compared to the 100% hedge strategies, which predictably displayed very strong returns during Q3 2008."

Currency overlay strategies have been brought into focus in recent years, as pension funds have sought to diversify their equity risk by increasing their allocations to overseas equities. Whilst overall allocations to equities have decreased over the last 10 years, the proportion held in overseas equities continues to rise and as at September 30, 2008 pension funds held equal amounts in UK and overseas equities. With this increased allocation to overseas equities, pension funds are exposed to greater risk from currency fluctuations. The use of currency overlay managers allows pension funds to hedge against fluctuations in exchange rates.

The Performance and Risk Analytics Currency Overlay Manager Profile Analysis is a BNY Mellon Asset Servicing service. The universe includes accounts from 18 separate asset managers with a total asset value in excess of \$73 billion. Each quarter, BNY Mellon Asset Servicing publishes the results of its Currency Overlay Manager Profile Analysis. This survey examines the overall excess returns achieved by active currency overlay managers against benchmark, across different styles, hedge ratios and base currencies.

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Notes to editors

The performance analysis and other information in this press release are based on historical data and are intended for informational purposes only. Past performance is not a guarantee of future performance. This press release does not constitute investment advice, nor is it an offer or recommendation of any security, investment product, service or firm.

BNY Mellon Asset Servicing offers clients worldwide a broad spectrum of specialised asset servicing capabilities, including custody and fund services, securities lending, performance and analytics, and execution services. BNY Mellon Asset Servicing offers its products and services through The Bank of New York Mellon and other subsidiaries of The Bank of New York Mellon Corporation.

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