TCX Fund

How fund managers can use TCX

TCX enables fund managers to provide local-currency ("LCY") debt in emerging and frontier markets without bearing the FX risk. It does so by offering non-deliverable forwards ("NDF") and non-deliverable cross-currency swaps ("NDS") for around 100 currencies, without any restrictions on the tenor.

TCX has active partnerships with numerous fund managers, which are geared towards optimizing the funds' product offerings and their risk management frameworks. We recommend fund managers who finance borrowers that have LCY income to start a trading relationship with TCX for the following reasons:

- Emerging and frontier-market currencies can be very volatile and are expected to depreciate. If the fund provides hard-currency ("HCY") financing to borrowers with LCY income, it exposes the borrowers to market risk and, by extension, the fund to increased credit risk.
- LCY financing, on the other hand, protects both the borrower and the fund against these risks. Access to TCX allows the fund to provide LCY funding, without taking on any currency risk itself, as this can be effectively hedged with TCX.
- LCY lending reduces the risk of impairments in the fund's loan books, since the probability of default for LCY debt is smaller than for HCY debt.
- The ability to lend in LCY implies a broader client-oriented product offering, hence potentially greater client satisfaction as well as an improved competitive positioning for the fund. It can also help the fund to break into a market where HCY is simply not an option for target clients.
- In case a borrower default occurs at a time of severe LCY depreciation, the value of the swap will be positive to the lender ('right-way risk' to the lender). When the swap is terminated, the fund will receive the termination value from TCX and be able to mitigate its credit loss (TCX is single-A rated by S&P).
- If the investment strategy of the fund consists of keeping the LCY risk and not hedging, it may still occasionally benefit from access to TCX. For example, the fund can hedge a peak exposure in a single currency, take advantage of low hedging rates or lock in a return when an exit date for the investment has been defined.

TCX can support the provision of synthetic LCY loans, which are loans denominated in the LCY of the borrower but where all cash flows are in HCY (ask for our note on the "Synthetic LCY loan"). For TCX to transact with a lender, it needs to onboard the fund by completing the counterparty approval process and signing an ISDA contract (ask for our notes on "Onboarding" and "ISDA").