

# Currency solutions Q&A: Fiduciary FX in-depth

This document provides information about the Mesirow Financial Currency Management (Mesirow) Fiduciary Foreign Exchange (Fiduciary FX) trading service. The information is generally presented in a question and answer format and is based on prospective Fiduciary FX client due diligence questionnaires and demonstrations.

## General

### FIDUCIARY FX SERVICE DESCRIPTION

Fiduciary FX is an enhancement of the agency foreign exchange approach for trading foreign exchange to settle international trades<sup>1</sup>, to convert foreign income such as dividends, and to hedge currency risk. An agent trades on behalf of its client (typically an asset owner or asset manager (collectively, investor)), seeking the best terms at the time of the transaction. The agent is compensated with an agreed-upon fee for its service. An agent who is also a fiduciary has an ethical and legal responsibility to act in the investor's best interests.

### FIDUCIARY FX PROCESS OVERVIEW

At its simplest, an investor sends an order to the fiduciary (Mesirow). The fiduciary manages the trading and settlement of the order. At the end of the process, the fiduciary sends the trade results back to the investor so that the investor can update its systems and accounts.

More specifically, the fiduciary will net the order with other investor activity, minimizing the amount that has to be traded in the market and keeping costs low. The fiduciary will seek the best price possible given constraints with the order. When the deal is done, the fiduciary sends an electronic message to the investor's custodian so that the custodian is prepared to exchange currencies on settlement day. The fiduciary manages the settlement process, addressing issues that might arise. Periodically, the fiduciary provides a third-party transaction cost analysis report, giving the investor an objective assessment of the fiduciary's effectiveness.

The investor doesn't participate in the process except to deliver orders and receive the execution results. The following flow diagram visually describes the process.

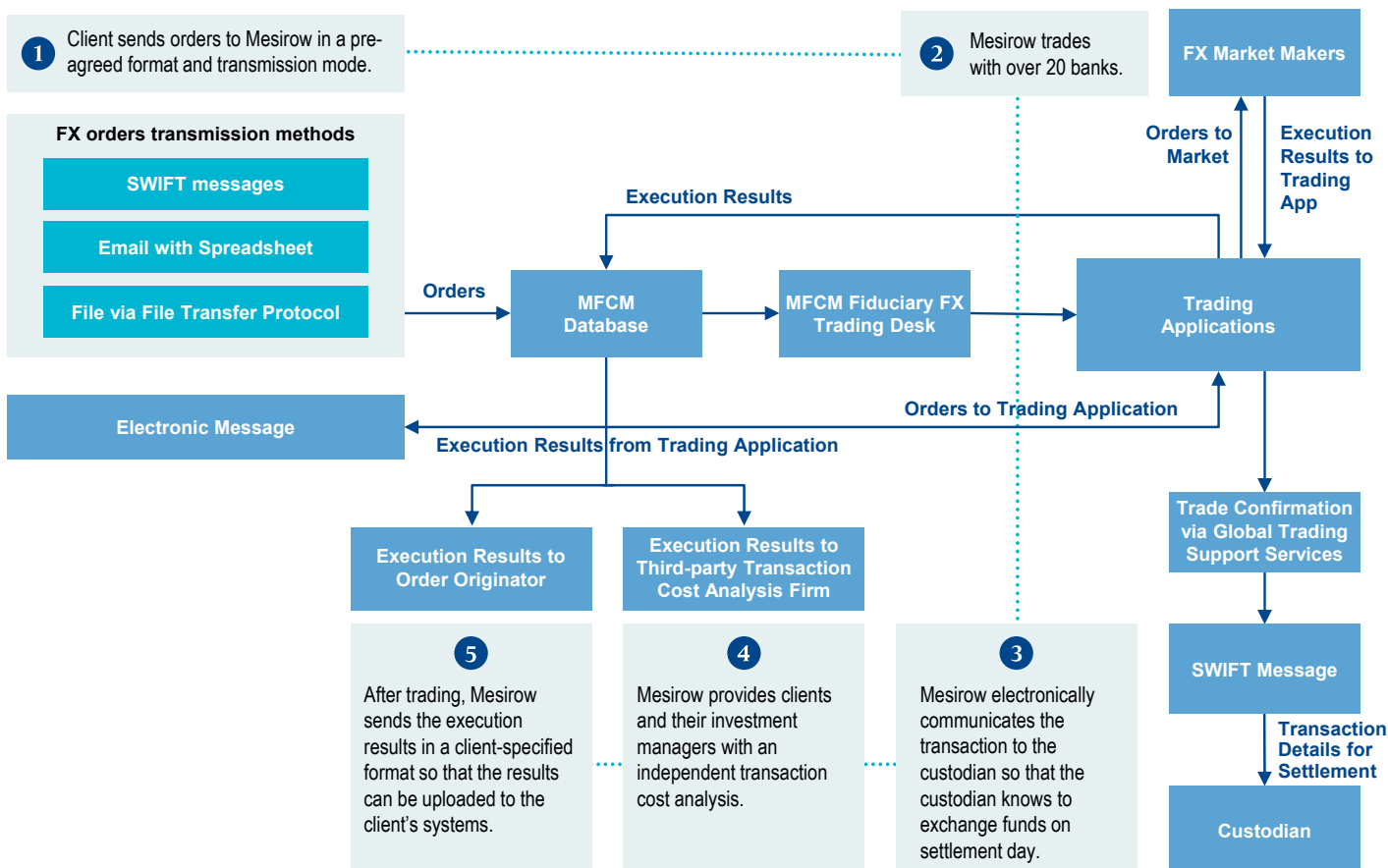
## The document is divided into three sections:

1. The General section presents basic information about the Fiduciary FX service.
2. The Operations section describes the operational aspects of Fiduciary FX.
3. The Manager section provides information that is useful to external international managers that will be participating in the Fiduciary FX program

The Manager section is further divided into subsections that reflect the typical Fiduciary FX process.

- Onboarding the manager into the program and providing the manager with periodic program updates
- Orders
- Trading
- Post-trade activities
- Communications
- Business continuity

FIGURE 1. FIDUCIARY FX PROCESS



Source: MCM, Bloomberg. Period under study is from December 2001 to April 2020. Rolling 24-month correlation USD/CCY versus USD/CHF. Past performance is not necessarily indicative of future results; actual outcomes may differ. This graph does not illustrate actual client experience or results.

**At what location will Mesirow’s front and back office staff be located?**

Mesirow offers around-the-clock trading from its Chicago office. Operations are provided from its Chicago and London offices.

**Are there any expected time zone implications between order execution and the associated FX instruction?**

Because Mesirow offers 24-hour trading, we do not anticipate time zone issues.

**Operations**

**Does Mesirow cross our orders with any internal flow?**

No. Mesirow does not have a trading account, nor are there internal flows to benefit from crossing or trading with external orders. Mesirow never trades as a principal and never faces its clients in a transaction. We are a pure agency firm (“pure” meaning no affiliated trading arrangements)

that acts as a fiduciary. Mesirow believes this agency/ fiduciary role sets us apart from our competitors and is a distinguishing and important characteristic to our clients.

**Does Mesirow net our orders? What about matching with other clients’ orders?**

Yes, Mesirow will net your orders to reduce the volume traded in the market. The general process is to collect orders for a short amount of time to increase netting opportunities. However, we do offer the flexibility to trade orders upon receipt or to meet a client’s unique or one-off trading requirements.

We also match orders among clients to further reduce the volume taken to market. We trade these orders as a block to provide all constituent orders the same rates and to ensure that all orders are handled equitably and fairly.

**Security trades not being communicated to Mesirow or FX trades not being communicated to the custodian by Mesirow in a timely manner may have an impact on the fund’s liquidity program as the FX may not be included in the cash forecast reports. Can Mesirow communicate to the fund’s middle office or operations team when trades have been communicated late so we can increase the buffer on a manager’s portfolio accordingly?**

We would anticipate receiving orders on T and executing promptly for T+2 or T+3 settlement. If orders are received late, we will execute as quickly as possible. In these instances, we can provide trade execution details to the fund’s internal teams – we would request the file format and transmission mechanism that would be most convenient.

**When and how will instruction details appear in the custodian’s reporting? Some managers use several cash reports from the custodian for their cash management purposes. It is important to have instructions captured in a timely fashion.**

Mesirow proposes the execution times shown in Table 1: Trading Execution Times on the following page, and then two hours for confirmation and SWIFT notification to the custodian.

**Are there any additional SWIFT costs (SWIFTs being sent to Mesirow and the custodian) that may be passed onto the fund or the manager?**

There should be no additional SWIFT cost. The manager would send an extra SWIFT message (a copy to Mesirow of the message sent to the custodian - the FX order), but that message cost would be offset by Mesirow sending (instead of the manager) a SWIFT message to notify the custodian of the resulting FX transaction.

**What is the expected resolution protocol if Mesirow’s FX instructions are sent late and an overdraft arises as a result?**

If the order is received on the trade date, then Mesirow is responsible for meeting the settlement deadline. If the order is timely and Mesirow’s actions result in late settlement, Mesirow is responsible for overdraft charges.

If the question concerns the manager missing an execution time shown in Table 1: Trading Execution Times on the following page, and, as a result, possibly impacting timely settlement, we would propose that the manager call us with instructions to execute upon receipt of order.

More generally, we are committed to helping the managers with their currency trading, and we will work closely and cooperatively with them to best meet their and the fund’s requirements, including settlement deadlines.

**Our manager uses the custodian’s cash projections report that helps the manager solve various problems. When Mesirow sends through trade details to the custodian, will this be line-by-line detail or in consolidated form for each pair?**

We intend to instruct the custodian using SWIFT message type 304 for each individual trade. We can send the manager a report similar to the one shown in Figure 2 if that would meet the manager’s requirements. If not, we would be glad to discuss another solution.

FIGURE 2. FIDUCIARY FX EXECUTION REPORT

MFCM ID	Account	Trade Date	Settle Date	Side	Currency	Amount	Exchange Rate	Alternate Currency	Alternate Amount
454684	ABCD1	7/11/2019	7/15/2019	BUY	CHF	100,000.00	1.2401	GBP	80,638.66
454685	ABCD1	7/11/2019	7/15/2019	SELL	EUR	500,000.00	1.1252	USD	562,600.00
454686	ABCD1	7/11/2019	7/15/2019	BUY	GBP	650,000.00	1.7972	AUD	1,188,180.00
454687	WXYZ2	7/11/2019	7/15/2019	BUY	GBP	1,000,000.00	1.2538	USD	1,253,800.00
454688	WXYZ2	7/11/2019	7/15/2019	SELL	CAD	300,000.00	1.6393	GBP	183,004.94

**External Managers**

**MANAGER ON-BOARDING AND PROGRAM UPDATES**

Mesirow will discuss the program with each external manager and prepare a memo describing the roles and responsibilities of Mesirow and the manager. A typical memo will cover:

- Communication of orders and execution results including the format of the communication and the transmission mode (email, electronic, file transfer, etc.)
- Accounts to trade
- Order cut off times
- Currencies to trade
- Frequency of trading
- Confirmation of the trade
- Notification to the custodian of the transaction
- Transaction cost analysis reporting
- Contact details for the manager and Mesirow

**If a manager accesses a new market, do you have a process for managing this and updating the memo? The manager or the fund would need to communicate the change to Mesirow; however, it is an operational risk if the manager were to send through trade instructions for a currency not listed in the memo.**

If the manager opens a new market and contacts Mesirow, we will promptly:

- Update the memo
- Update our internal systems to accept the new currencies
- Confirm with the manager or the custodian that the new currency account is open
- Confirm with the manager that we are prepared to accept orders for the new market

**From the manager’s perspective, what is the resolution process if the custodian or Mesirow executed an FX order when the other party should have done so?**

Mesirow will discuss the program with each external manager and prepare a memo describing the roles and responsibilities of Mesirow and the manager including responsibilities for which currencies to trade. If the manager (or the custodian on behalf of the manager) or Mesirow mistakenly trades a currency, it will be that party’s duty to correct the transaction.

## ORDERS

**It appears managers send orders to Mesirow regardless of whether the order needs to be executed or not. Does this introduce the risk of FX trades being duplicated?**

It would be best if unnecessary SWIFT messages could be suppressed. However, our experience is that some managers may not have the capability to suppress certain messages. In these instances, we have the programming logic to filter the messages and avoid unnecessary trading.

**Will Mesirow send trade receipt confirmations (i.e., a confirmation that x number of trade instructions have been received from the manager on any given day)?**

If the manager provides orders via SWIFT, then Mesirow can provide an electronic acknowledgement. Otherwise, Mesirow will provide execution results that the manager can use to confirm that orders delivered to Mesirow match executions received by the manager.

**What is the procedure if the order settlement date is a holiday for one of the currencies involved in the transaction?**

If there is a holiday that prevents the currency trade from settling on the equity settlement date, we would adjust the value date as described below:

- For an equity purchase, the currency trade settlement date would be adjusted to settle one day ahead of the equity settlement date to ensure the local amount is available for settlement.
- For an equity sale, the currency trade settlement date would be adjusted to settle one day after the security settlement date to ensure the proceeds from the security sale would be available for the currency transaction.

## TRADING

**When will Mesirow execute their FX instruction (i.e. T, T+1, etc.)? Presumably it will settle in line with the underlying security trades. We understand the flexibility your program can provide, but we would like to better understand the implications of choosing certain execution times and how this might affect the equity markets/managers in different time zones.**

Assuming the order is received on T, Mesirow will execute on T and settlement will be scheduled in accordance with the order instruction. Most typically, the foreign exchange settlement date aligns with settlement of the underlying security. Generally, Mesirow executes in a batch process to take advantage of netting opportunities. Execution would occur as described in the table of execution times below.

Trade execution occurs every four hours beginning at 10 am London (one hour after the Singapore equity market close) and then every four hours plus the London fix and Tokyo fix.

TABLE 1. TRADING EXECUTION TIMES

London	Melbourne	Chicago	
10:00 AM	9:00 PM	4:00 AM	
2:00 PM	1:00 AM	8:00 AM	
4:00 PM	3:00 AM	10:00 AM	London Fix
6:00 PM	5:00 AM	12:00 PM	
10:00 PM	9:00 AM	4:00 PM	
1:00 AM	12:00 PM	7:00 PM	Tokyo Fix
2:00 AM	1:00 PM	8:00 PM	
6:00 AM	5:00 PM	12:00 AM	

We can also trade at other fixing times, upon receipt of order, or to meet unique trading strategies. In other words, Mesirow can be flexible to meet the external managers' requirements.

**Noting the trading/execution times listed above, can you provide more detail around cut off times for “the order is received on T”? The manager would like some clarity as to the exact deadlines, acknowledging this might differ for various currencies.**

The statement “if the order is received on T” describes the normal process of the manager trading underlying securities and, shortly after the close of regional trading (say, North America), submitting the FX order to Mesirow. If the order is delivered to Mesirow later than T, we will execute as quickly as possible to meet the settlement times required by the custodian.

**Cancellation and rebooking of trades can happen at times for financial or settlement purposes and the manager generally instructs via SWIFT. How does Mesirow want to be instructed to avoid duplicating the FX?**

In the case of cancelling and rebooking, we would propose the manager contact the Mesirow FX desk and discuss what actions are required. If the original orders have not been traded, then the rebooked orders can be executed. If the original executions have been traded, then the manager can discuss with the Mesirow FX desk what net action is required.

**Can Mesirow trade restricted currencies?**

Mesirow can trade some restricted currencies. Our process involves requesting the custodian identify currencies that could be settled by a third-party agent. We can then develop a plan for trading and settling eligible restricted currencies.

**POST-TRADE ACTIVITIES**

**What is the format and timing of trade confirmations from Mesirow?**

Mesirow typically confirms the transaction with the executing bank or prime broker within two hours of execution on Global Link's Global Trading Support Services (GTSS) platform.

**GTSS – is this a requirement between the manager and Mesirow?**

No, Global Trading Support Services is an electronic post-trade processing service that supports trade matching, confirmation and settlement of FX transactions between Mesirow and the executing bank.

**Could you confirm that your settlement convention is via CLS.** Confirmed. We are CLS participants and strong proponents of this industry settlement service.

**Will trade confirmations include line-by-line reporting on each trade instruction and currency pair? The manager asks as this detail can often help them solving problems such as overdrafts etc. Is a sample report available?**

Yes. We would propose a conversation with the manager to find a format that would best meet the manager's requirement, but we could provide something similar to the report shown below.

FIGURE 3. FIDUCIARY FX EXECUTION REPORT

MFCM ID	Account	Trade Date	Settle Date	Side	Currency	Amount	Exchange Rate	Alternate Currency	Alternate Amount
454684	ABCD1	7/11/2019	7/15/2019	BUY	CHF	100,000.00	1.2401	GBP	80,638.66
454685	ABCD1	7/11/2019	7/15/2019	SELL	EUR	500,000.00	1.1252	USD	562,600.00
454686	ABCD1	7/11/2019	7/15/2019	BUY	GBP	650,000.00	1.7972	AUD	1,188,180.00
454687	WXYZ2	7/11/2019	7/15/2019	BUY	GBP	1,000,000.00	1.2538	USD	1,253,800.00
454688	WXYZ2	7/11/2019	7/15/2019	SELL	CAD	300,000.00	1.6393	GBP	183,004.94

**COMMUNICATIONS**

**If a manager had an urgent query around trading, confirms, rebookings, etc., can you confirm that there will always be a Mesirow contact available (especially during Asian trading hours) who will be able to respond promptly?**

Confirmed. Mesirow is staffed around-the-clock from the Monday morning Wellington open to the Friday afternoon New York close.

**Will the manager have access to contact Mesirow staff directly?**

Yes, the manager can contact Mesirow directly. We will provide contact details for trading, operations, and customer support.

**BUSINESS CONTINUITY**

**If SWIFT is down, how will the manager get FX instructions to Mesirow?**

Mesirow offers several ways to communicate including spreadsheet via email, file transfer via secure file transfer protocol, and electronically between applications (such as the manager's order management system directly to our trading application). We would propose identifying a primary and backup communications.

## If SWIFT is down or if the counterparty is having issues on Omgeo's Central Trade Manager, are faxed instructions a possibility?

We would agree to accept faxed instructions if those instructions are in a Mesirow-specified format.

## About Warakirri Asset Management

Warakirri is a multi-boutique asset management firm established in 1993 with specialist investment offerings for institutional and retail investors across multiple asset classes, including agriculture, equities, cash and specialised U.S real estate. Warakirri's equities offerings provide access to ethical investing across domestic and global equities, emerging markets and in partnership with Flinders Investment Partners Pty Ltd, to small cap equities. Warakirri also has a distribution partnership with Mesirow Financial Investment Management Inc providing institutional investors access to currency management services and direct U.S. real estate investments. Warakirri is also a leader in Australian agricultural investment management with extensive experience in acquiring,

developing and operating agricultural assets on behalf of investors. Warakirri is based in Melbourne and is 100% owned by its directors and employees.

## About Mesirow Financial

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with offices in 21 cities, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our workplace culture. To learn more, visit [mesirow.com](http://mesirow.com) and follow us on LinkedIn.

## For further information on Mesirow's currency management solutions available in Australia, please contact:

### Conor Hayes

Head of Institutional, Warakirri Asset Management

E: [conor.hayes@warakirri.com.au](mailto:conor.hayes@warakirri.com.au) | M: 0410-027-422

<sup>1</sup> As an example, suppose an Australian investor buys a Japanese security on a Japanese exchange. The investor would need to pay yen for the security and so would sell Australian dollars and buy yen. The fiduciary manages this trade (sell AUD and buy JPY) on behalf of the investor. When the investor sells the security, the fiduciary would do the reverse trade: sell JPY and buy AUD. T is used as a reference to indicate trade date throughout the document.

A fiduciary relationship with Mesirow Financial Currency Management ("MFCM") can only be established through execution of an investment management agreement. MFCM is a division of Mesirow Financial Investment Management, Inc., ("MFIM") an SEC-registered investment advisor, a CFTC registered commodity trading advisor and a member of the NFA. The information contained herein is intended for institutional clients and Qualified Eligible Persons only and is for informational purposes only. This information has been obtained from sources believed to be reliable but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions expressed are subject to change without notice. It should not be assumed that any recommendations incorporated herein will be profitable or will equal past performance. Mesirow Financial does not render tax or legal advice. Nothing contained herein constitutes an offer to sell or a solicitation of an offer to buy an interest in any Mesirow Financial investment vehicle(s). Any offer can only be made through the appropriate Offering Memorandum. The Memorandum contains important information concerning risk factors and other material aspects of the investment and should be read carefully before an investment decision is made.

The information contained herein is intended for Wholesale Clients only and is for informational purposes only. This document is not a prospectus or product disclosure statement under the Corporations Act 2001 (Cth) (Corporations Act) and does not constitute a recommendation to acquire, an invitation to apply for, an offer to apply for or buy, an offer to arrange the issue or sale of, or an offer for issue or sale of, any securities or investment service in Australia, except as set out below. The strategy has not authorised nor taken any action to prepare or lodge with the Australian Securities & Investments Commission an Australian law compliant prospectus or product disclosure statement. Accordingly, this strategy and document may not be issued or distributed in Australia other than by way of or pursuant to an offer or invitation that does not need disclosure to investors under Part 6D.2 or Part 7.9 of the Corporations Act, whether by reason of the investor being a 'wholesale client' (as defined in section 761G of the Corporations Act and applicable regulations) or otherwise. This document does not constitute or involve a recommendation to acquire, an offer or invitation for issue or sale, an offer or invitation to arrange the issue or sale, or an issue or sale, of any strategy or investment service to a 'retail client' (as defined in section 761G of the Corporations Act and applicable regulations) in Australia.

Certain strategies discussed throughout the document are based on proprietary models of MFCM's or its affiliates. No representation is being made that any account will or is likely to achieve profits or losses similar to those referenced.

Performance pertaining to currency overlay services is stated gross of fees. Performance information that is provided gross of fees does not reflect the deduction of advisory fees. Client returns will be reduced by such fees and other expenses that may be incurred in the management of the account. Advisory fees are described in Part II of Form ADV of Mesirow Financial Investment Management, Inc. Simulated model performance information and results do not reflect actual trading or asset or fund advisory management and the results may not reflect the impact that material economic and market factors may have had, and can reflect the benefit of hindsight, on MFCM's decision-making if MFCM were actually managing client's money in the same manner. Any chart, graph, or formula should not be used by itself to make any trading or investment decision. Any currency selections referenced herein have been included to illustrate the market impact of certain currencies over specific time frames. The inclusion of these is not designed to convey that any past specific currency management decision by MFCM would have been profitable to any person. It should not be assumed that currency market movements in the future will repeat such patterns and/or be profitable or reflect the currency movements illustrated above.

Warakirri Asset Management Ltd (ABN 33 057 529 370) (AFSL 246782) is the exclusive representative of MFCM in Australia. You should consult a financial adviser to help you form your own opinion of the information, and on whether the information is suitable for your individual needs and aims as an investor. The content within this document is not an offer or solicitation to enter into any agreement of any kind or intended to have that effect.

Mesirow Financial refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow Financial name and logo are registered service marks of Mesirow Financial Holdings, Inc., © 2020, Mesirow Financial Holdings, Inc. All rights reserved. Investment management services provided through Mesirow Financial Investment Management, Inc., a SEC-registered investment advisor.