

### Company overview

Mellon Capital Management Corporation (Mellon Capital) was founded in 1983 by originators of value-based tactical asset allocation and index fund management. As a wholly-owned subsidiary of The Bank of New York Mellon Corporation, Mellon Capital enjoys the benefits of a well-capitalised parent company with a strong balance sheet.

Mellon Capital provides global multi-asset solutions with investment capabilities ranging from indexing to alternatives and the infrastructure and skill to transact in all liquid asset classes and securities.

### Investment philosophy and style

When managing Active Currency portfolios, Mellon Capital believes the following.

- **Active currency management can add value by exploiting market inefficiencies.** The deep liquidity and low trading costs of developed currency markets coupled with misvaluations caused by non-profit seeking players create significant opportunities for a skilled currency manager.
- **Forward-looking fundamental valuation relationships drive currency returns over the medium and longer term.** Transitory cross border differences and structural factors may yield exploitable investment opportunities.
- **Rigorous risk management is critical to the delivery of alpha.** A disciplined, risk controlled, and global approach to portfolio construction and implementation leads to a well-balanced currency portfolio.

- **Currency values are assessed relative to a global basket.** Focusing on each currency's valuation relative to a global basket rather than as currency pairs helps to capture misvaluations more effectively.

### Investment process

The Active Currency strategy is implemented using a fundamentally-driven systematic investment process that is highly disciplined. Mellon Capital's model-based approach uses real time forward-looking inputs designed to construct a well-diversified, optimal portfolio. Inputs are updated throughout the day and risk is rigorously monitored, with long and short exposures taken to achieve the desired active risk target.

The strategy uses three components to determine the relative attractiveness of each currency.

- **Interest rate.** This component favours higher yielding currencies and reflects the expected impact of monetary policy changes.
- **Market environment.** This component incorporates information about risk aversion and market uncertainty.
- **Valuation.** This component captures extreme PPP (Purchasing Power Parity) deviations from fair value and unsustainable current account imbalances.

Mellon Capital combines these three components to form its view of the relative attractiveness for each currency. This aggregate measure is based on the strength of each of the signals, with the interest rate signal serving as the largest driver of currency assessment.

### Investment team

At Mellon Capital, investment strategies are process driven, not manager driven. The research, portfolio management and trading departments communicate regularly to ensure that the active currency portfolios are implemented effectively. The asset allocation portfolio management department is in charge of maintaining model inputs and executing the model on a day-to-day basis. This department reviews model recommendations and prepares the trade orders to be executed by the trading team.

The research team members continuously work to enhance and refine the investment process. The guidelines and policies set for conducting research, and model modifications resulting from such research, are derived by and implemented under the supervision of the Investment Research Committee. Mellon Capital's research department and the senior professionals work together to effectively apply our research to the strategy.

### Reason Advance selected Mellon Capital

Mellon Capital has a time tested active currency process backed by a large financial services company. Its systematic process is rigorously and objectively implemented and the manager has a strong focus on forward-looking research to continuously enhance an update the strategy. We also favour the comprehensive risk management that's embedded in the portfolio construction process.