

Currency Hedging ETFs: What Are They and Why Are They Important?

BNY Mellon ETF Symposium, Bloomberg Advantage Interview

Steve Cook, Chief Operating Officer of Global ETF Services at BNY Mellon
Kathleen Hayes, Host, The Bloomberg Advantage
Vonnie Quinn, Host, The Bloomberg Advantage

Kathleen Hayes: A hot commodity in the ETF world: Currency Hedging ETFs. What are they, and why are they so important.

Steve Cook: Yes, so, often times investors want exposure to emerging markets, frontier markets, even developed markets overseas. And they don't understand that often times what comes with that is currency risk. That you could go ahead and invest in an index; that index performs 30 (percent), 40 percent, but because of the performance of the euro to the U.S. dollar or the yen to the U.S. dollar, it can take away the performance of your investments, and you'll end up with a 20 percent return instead of a 40 percent return unless you go ahead and hedge that currency risk. And so, the portfolios go ahead and do that on behalf of the investors.

Kathleen: Put this in the news context. We have Mario Draghi, head of the European Central Bank, making some pretty dramatic cuts in the growth forecasts for the next couple of years, saying that the ECB will reassess its view of stimulus. People are talking more and more about the EC going ahead and maybe buying sovereign bonds, government bonds, but in the secondary market. How does that fit into somebody's ETF strategy?

Steve: Well, again, if you want to go ahead and still get the performance or the growth of some of the companies coming out of Europe, it's still a great investment to make. It still offers non-correlation to maybe some of your other core investments. So, you should still obviously get that exposure, but again you should be rightfully worried about the currency associated with that investment. And so you can go ahead and buy a currency hedged ETF. I know Deutsche Bank's bringing out a number of products in that market; a number of other providers, to try and still give you access to the indices or the broad-based indexes, but take away the currency risk.

Kathleen: OK. Let's say I'm a do-it-yourselfer. Let's say I'm a retail investor. Obviously this conference has a lot of RIAs, registered investment advisors, wealth managers, etc. Let's say I'm a do-it-yourselfer. Many people would say that ETFs are something good for that kind of person, because the small investor can get a piece of the action that they could only have...without an ETF, they'd need a lot more money. They'd need a much bigger down payment. But what are the risks? What should people be aware of, Steve, if they're thinking of looking at currency hedging ETFs?

Steve: Well again, I think you have to understand the benchmark, right? So, you have to get comfortable with what kind of performance or what kind of exposure you want. Understand the benchmark that you're investing in, what does that deliver from an exposure perspective.

And then, really, the last risk to be concerned about is buying the actual ETF in the market. So, an individual investor has to understand that ETFs trade at a bid-ask spread, and that they don't want to just put in a market order and take whatever price comes back. So, they really need to put in a limit order to ensure that they're getting the best price. And once you've made the decision on the benchmark itself, the currency hedge is really just a natural overlay on top of that and you don't really have to worry about that as much. It's more get your exposure down, understand the benchmark you're going to track, and ensure that you're buying at the right price through a limit order.

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the Corporation as a whole or its various subsidiaries generally.

Products and services may be provided under various brand names and in various countries by subsidiaries, affiliates, and joint ventures of The Bank of New York Mellon Corporation where authorized and regulated as required within each jurisdiction, and may include The Bank of New York Mellon, One Wall Street, New York, New York 10286, a banking corporation organized and existing pursuant to the laws of the State of New York and operating in England through its branch at One Canada Square, London E14 5AL, England. Registered in England and Wales with FC005522 and BR000818. Supervised and regulated by the New York State Department of Financial Services and the Federal Reserve. Authorized by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority of the United Kingdom (and any successor regulatory entity). Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Not all products and services are offered at all locations.

Material contained within this audio recording is intended for information purposes only. It is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter, and is not to be used as such. You should contact your independent financial advisor prior to acting on any information mentioned in the audio recording. This is not a financial promotion. No statement or expression is an offer or solicitation to buy or sell any products or services mentioned. The contents may not be comprehensive or up-to-date, and BNY Mellon will not be responsible for updating any information contained within this audio recording.

To the extent this audio recording may be deemed to be a financial promotion under non-US jurisdictions, it is provided for use by professional investors only and not for onward distribution to, or to be relied upon by, retail investors.

No statement or expression is an offer or solicitation to buy or sell any products or services mentioned. This audio recording is not intended for distribution to, or use by, any person or entity in any jurisdiction or country in which such distribution or use would be contrary to local law or regulation. Similarly, this audio recording may not be distributed or used for the purpose of offers or solicitations in any jurisdiction or in any circumstances in which such offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements. The contents may not be comprehensive or up-to-date, and BNY Mellon will not be responsible for updating any information contained within this audio recording.

BNY Mellon assumes no liability whatsoever (direct or consequential or any other form of liability) for any action taken in reliance on the information contained in this audio recording. Any unauthorized use of material contained in this audio recording is at the user's own risk.

The views expressed herein are those of the speaker(s) only and not those of BNY Mellon or any of its subsidiaries or affiliates. They reflect conditions as of the date of the video and are subject to change.

This program is not to be reproduced in whole or in part without the authorization of BNY Mellon.

Trademarks, service marks and logos belong to their respective owners.

© 2014 The Bank of New York Mellon Corporation. All rights reserved.