Your funds are under increasing pressure. There’s always fund performance and the competition, but more and more, investors are coming forward with stringent demands, tailored and focused requirements and much stronger opinions on risk management.

Currency volatility poses a very real risk for investment performance, and managing the associated currency risk is not always part of the strategy.

With these new demands and the increased focus on risk management, funds and their currency hedging strategies are coming under closer scrutiny.

A currency hedging program typically involves either portfolio (investment) hedging or share class (investor) hedging or a combination of both.

Portfolio hedging helps to protect investors from the foreign exchange impact of a fund investing in assets denominated in currencies other than the fund’s base currency.

Share class hedging aims to protect non-base currency investors from the performance impact of valuing their fund holdings in a currency other than the fund’s base currency.

Currency hedging can be complex, and it involves both operational and financial risk. Determining how a currency hedging program should be run and who should perform the administrative and operational functions are key decisions. Should you run a self-managed, in-house currency hedging program? Or should you use a currency administration service provider?

An in-house program might be considered a cost-free model, but you invest time, talent and technology in the program, resources that could be allocated elsewhere. An in-house program could also add higher transaction costs and performance divergence on the share class to the potential detriment of the underlying investors.

By using a currency administration service provider for currency hedging, vs. having an in-house program, you may achieve a higher level of automation and efficiency. You may also significantly reduce your operational costs and re-allocate resources so that they add more value for investors by allowing you to focus on core investment decisions.

Transparency into a fund’s operations and execution standards is another potential benefit of using a service provider. This transparency can help you with administrative, due diligence and regulatory requirements by augmenting existing internal oversight and risk controls along with the necessary reporting infrastructure.
Using a service provider may also provide benefits for underlying investors to better align the performance of the investors’ non-base currency share classes with the fund base currency class performance. There is also the potential for reduced transaction costs due to execution netting opportunities that a service provider may offer which an investment manager may not.

BNY Mellon supports currency hedging programs with its currency administration services and is a leading industry service provider. We integrate and administer the components of a passive currency hedging program (share-class or portfolio).

Through our approach, you retain all investment management discretion while FX execution, administration and certain FX operational functions are handled by the BNY Mellon Markets Group’s foreign exchange desk.

With our currency administration services, BNY Mellon may help you to:

- focus on core competencies;
- deliver on performance objectives;
- increase the distribution of investment products and services; and
- enhance business efficiencies and risk mitigation

With the end goal of securing, retaining and growing assets under management.

How can we help you?

To learn more visit: bnymellon.com/currencyadmin
completeness of any information or data contained in this material. Price and other data are subject to change at any time without notice.

Rates: neither BNY Mellon nor any other third party provider shall be liable for any errors in or delays in providing or making available the data (including rates, WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates) contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees’ negligence. The WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates are provided by The World Markets Company plc (“WM”) in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees’ negligence.

Currency Administration is provided under and subject to the terms of a definitive agreement between BNY Mellon and the client. BNY Mellon exercises no investment discretion thereunder, but acts solely pursuant to the instructions in such agreement or otherwise provided by the client. Unless provided by definitive agreement, BNY Mellon is not an agent or fiduciary thereunder, and acts solely as principal in connection with related foreign exchange transactions.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

THIS VIDEO IS NOT TO BE REPRODUCED IN WHOLE OR IN PART WITHOUT THE AUTHORIZATION OF BNY MELLON.

© 2016 The Bank of New York Mellon Corporation. All rights reserved.