

Currency Management

Institutional investors are increasingly managing multiple currency exposures in today's global financial markets. Our Currency Management service provides investment managers, asset owners and institutional investors with FX execution and currency hedging solutions to minimize risk, reduce costs and increase efficiency.

When it comes to managing currency exposures, investors need to balance risk while attempting to generate returns. While global investment offers diversification in investment risk, it also introduces the risks created by non-domestic currency exposures. Investment performance is affected not only by asset returns but also by currency fluctuation.

We build our solutions to meet your specific currency management needs, whether your objective is cross-border product distribution or portfolio risk management. Our typical mandates include share class hedging and portfolio hedging, based on either index weights or currency holdings of a portfolio, that may include both developed and emerging markets' currencies. As a fully outsourced solution, we work with you to design and implement a rules-based hedging strategy and execute FX transactions in response to any portfolio and valuation changes that cause a breach of contracted rules. Developed and refined over 20 years of practical implementation, our proprietary hedging platform features systematic processing, transparent reporting and the scalability you need as your assets grow.



Our multiple hedging options include portfolio level, share class-level hedging with “look through” and benchmark-relative strategies



Dedicated team of experienced professionals located around the world



Outsourced solution to minimize risk, reduce costs and increase efficiency



Product Overview

Our Currency Management solution is an effective, outsourced offering for investment managers who need to manage the risk associated with multiple currencies and cross-border investment flows. The service utilizes proprietary fit-for-purpose portfolio monitoring and hedge management technology with the use of over-the-counter (OTC) FX Spot and Forwards as hedging instruments. Our agency offering allows us to access to multiple counterparties at the direction of the client.

An Automated, Straight-Through Process

Prior to implementation, your dedicated project manager will manage the onboarding through coordination with strategy, analytics and product development specialists. During this period, workflows and connectivity will be established with data agents. Additionally, accounts will be set up with mutually agreed hedging parameters (e.g., hedge ratio tolerances, proxy currencies), supported by available analytics. Once the initial onboarding protocols are established, our service allows managers to scale product efficiently in support of new product launch initiatives.

Share Class Hedging

A share class hedging strategy seeks to hedge the currency risk between the base currency of a fund and that of a hedged share class. Our focus is on operational risk control and performance of the share class. To manage risks, we use customized

modules designed to systematically import and verify data from various agents, while for performance our process focuses on benchmark pricing. Our goal is to maintain the target hedge while considering variations due to both net-asset value changes and investors inflows and outflows. All cash flows target execution at a published benchmark spot rate to correspond with the valuation rate used in fund pricing and accounting. We aim to reduce the impact of data lag by executing currency trades attributed to changes in Net Asset Value (NAV) outside of agreed rebalancing bands as soon as practicable. We can accommodate flexibility in hedged tolerances, benchmark selection, forward contract tenor, proxy hedging, and counterparty rules and limitations.

Experienced Currency Manager — we have more than two decades of experience in currency management, with an approximate 40-member team of professionals based in Boston, London and Tokyo.

Strength and Stability — we are a Global Systemically Important Financial Institution (G-SIFI)[#]

[#]As identified by the FSB and BCBS

Portfolio Hedging

Our portfolio hedging solutions focus on removing operational risks while considering the trade-off between tracking error and transaction costs. Tracking error associated with a rules-based overlay is caused by a combination of factors, such as rebalancing frequency, hedge filters and interest rate differentials. Frequent rebalancing can increase transaction costs and infrequent rebalancing can cause higher tracking error. Our sophisticated simulations help to illustrate the relationship between transaction costs and tracking error.

Traditionally, a strategic hedging policy in a rules-based strategy defines a target ratio to apply to foreign currency exposures. We apply this target hedge ratio to your portfolio exposures to determine the amount of currency to be hedged. This will operate within a band that is a percentage of target hedge ratio, and in some circumstances is combined with an absolute value to limit trade size and minimize transaction costs. This will help to eliminate trades resulting from noise.

Benchmark Hedging

Just as hedging decisions can consider the currency positions in the underlying portfolio, they can also consider the currency positions in published benchmarks.

Benchmark weight hedging involves hedging exposures based on the currency weights of a published unhedged benchmark as a proxy for underlying holdings. This type of strategy is typically used either to simplify hedge weight calculation or to retain active currency bets in a hedged portfolio or share class.

Currency-hedged benchmark replication involves hedging exposures based on the currency weights and hedging rules in a currency-hedged benchmark.

Leaders in Hedging — we work with some of the largest institutional investors in the world, with around US\$248 billion in assets under hedging across more than 3,800 accounts.

State Street Global Markets,
Currency Management, January 31, 2020

Flexibility — our Currency Management solutions can be adapted to a wide range of client types with an agency model that allows access to multiple counterparties outside of State Street. While we have established integration protocols with State Street Global Services custody and administration teams, we also provide hedging services for clients who utilize third-party custodians and administrators.

To learn more about our Currency
Management solution, e-mail:
SSGM_Currency_Client_Service@statestreet.com

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