STATE STREET

MANAGING CURRENCY RISK

Increasing relevance for private markets

As the private markets industry evolves, driven by increasingly global portfolios and new fund structures designed for large scale individual investment and international distribution, FX is becoming a more strategic consideration.

The findings from State Street's 2026 Private Markets Study reinforce that FX risk is now a mainstream operational concern. Globally, over 40 percent of private market managers hedge FX risk with a combination of in-house and outsourced solutions.

State Street's Private Capital indices, covering US$6 trillion in capital commitments, also show a clear increase in aggregate currency exposure. Euro-denominated funds have approximately 60 percent foreign currency exposure, while funds managed in the US and UK are close to 40 percent. Many managers are also expanding into emerging markets, introducing additional currency risks that require active oversight.

At the same time, changing fund structures are creating new operational demands around currency management.

One of the most significant structural developments has been the growth of open-ended and semi-liquid evergreen vehicles. These are designed to broaden access to private markets, particularly to individual investors, while providing periodic liquidity through subscriptions and redemptions. As a result, managers are increasingly balancing liquidity needs related to investor redemptions alongside the demands of meeting mark-to-market (MTM) and collateral requirements.

Private market managers are also launching new foreign investor sleeves that enable investors to participate in non-base currencies. Unlike traditional long-dated fund-level hedging, share-class or investor hedging programs tend to be shorter-dated, higher-frequency, and operationally complex.

As these offerings become more common, FX management is becoming a key enabler of investor access and product innovation, requiring operating models that can scale efficiently alongside growth.

In a world of increasing macro and geopolitical volatility, FX risk can meaningfully impact IRR and fund performance. Firms are responding by taking a more sophisticated approach to FX hedging and liquidity management. Our research shows that managers use a range of approaches for currency hedging. FX forwards and swaps remain the most prominent hedging instruments, but funds are also using cross-currency swaps and FX options.

To better manage liquidity, firms are taking a holistic view of their banking relationships. Rather than managing fund servicing, financing and FX separately, many managers are seeking integrated solutions to optimize onboarding, credit underwriting, and balance sheet usage.

Looking ahead, we expect several trends to continue, including growth in semi-liquid structures, longer investment holding periods and longer hedging tenors, and expansion of global investor bases.

Together, these trends add new layers of FX complexity, driving demand for innovative liquidity solutions such as Historical Rate Rollovers (HRRs) and flexible collateral arrangements to manage risk and funding needs more effectively.

The industry's approach to currency risk is evolving. Five years ago, many managers viewed FX primarily as a treasury function and a byproduct of international investing. Today, they increasingly see it as a contributor to business growth and a critical component of liquidity and risk strategy.



Ken Grogan
Global Head of Foreign Exchange
Sales for Alternatives, State Street

US$6T

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