

# Currency management



Manage complex currency exposure needs in uncertain markets

Service summary



## The challenge

Currency volatility in an international portfolio can sometimes swamp the return expected from the underlying asset portfolio. Russell Investments has deep experience designing and implementing cost effective currency management strategies with a goal to reduce uncompensated risk. Currencies may also present opportunities to enhance the return of a client's total portfolio. Russell investments offers a broad suite of return-seeking currency solutions.

## The Russell Investments' advantage

As a global leader in the provision of currency management strategies, Russell Investments has deep experience meeting the needs of sophisticated institutional clients globally. With over €51 billion in assets in currency strategies<sup>1</sup>, we offer a full suite of currency management solutions including passive, dynamic and absolute return currency strategies. In addition, we offer a unique pure-agency currency execution service designed to reduce currency execution costs, improve transparency and reduce operational burden for clients.

## Explore our suite of sophisticated currency management strategies

### Passive currency strategy

Exposure to assets denominated in a non-base currency can introduce volatility. This currency volatility can be significant and may potentially overwhelm the investment gains in a client's underlying portfolio. Many investors are uncomfortable with this volatility and look to Russell Investments for assistance in managing this risk. We have been successfully helping clients since 1993 by offering a passive currency management strategy. Over time we have developed significant expertise and scale in our passive

currency strategy including a suite of proprietary tools and unique capabilities designed to meet the bespoke needs of clients located in all major geographic regions around the world.

### A bespoke and cost-effective way to manage currency risk

A passive currency strategy identifies and applies a static currency hedge ratio and is designed for the specific exposures and base currency for each individual client. Aspects such as liquidity management, tenor management, counterparty credit exposure, proxy hedging, performance attribution and regulatory reporting are all carefully designed to meet the unique needs of each client.

### Dynamic currency strategy

While our passive currency strategy is exclusively focused upon reducing the risk associated with exposure to non-base currency, our Dynamic Currency Strategy supports the dual investor goals of risk reduction and return enhancement. Russell Investments' Dynamic Currency Strategy goes a long way to solving the conundrum of what, when and how much currency exposure to hedge.

<sup>1</sup> As of 30 June 2019.

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## A smarter way to manage currency risk

As volatility increases in currency markets, we increasingly see investors re-thinking their currency management approaches, many are looking to address the dual goals of risk-reduction and return enhancement. Russell Investments' Dynamic Currency Strategy was specifically designed to address this need. The strategy supports dynamic changes in a client's currency hedge ratio informed by inputs from a proprietary quantitative model. This model was developed by the currency experts at Russell Investments and incorporates signals focused upon the three main drivers of expected return in currency markets: Carry, Value and Trend. The dynamic currency strategy looks for opportunities to raise expected returns and reduce cash flow drawdown by maintaining or increasing hedges on currencies experiencing declines while maintaining or reducing hedges on currencies experiencing gains, relative to the unique base currency of the client.

## Absolute return currency strategy

Currency exposure offers unique opportunities for return enhancement as well as providing diversification benefits that may reduce risk at the total portfolio level. Russell Investments' Absolute Return Currency Strategy was designed to capture these return and diversification benefits for clients.

First developed in 2010, we have been successfully delivering our Absolute Return Currency Strategy to external clients since 2011 and have delivered strong investment performance supported by outstanding client service.

## Delivering strong investment returns from currency exposure

Built upon the same quantitative framework as our Dynamic Currency Strategy, our Absolute Return Currency Strategy uses a proprietary quantitative model focusing upon the three main drivers of expected return in currency markets: Carry, Value and Trend. The Absolute Return Currency Strategy differs from our Dynamic Currency Strategy on the basis that it is not influenced by a client's base currency and the resulting long/short currency positions are agnostic to the underlying currency exposures within the client's portfolio. It is not uncommon for clients to combine our Absolute Return Currency Strategy with our Passive Currency Strategy.

## A trading approach which supports best execution and fiduciary alignment

### Agency FX trading

Unlike a principal trading provider, Russell Investments does not have a proprietary trading book. Our currency management strategies are supported by an Agency Foreign Exchange (FX) trading approach, where liquidity providers compete for our order flow and we pass execution benefits directly to you, including savings related to reduced bid/ask spreads, market impact and custodian charges. Acting on your behalf, we:

- Reduce costs by netting your transactions and trading as an agent
- Improve transparency by time stamping every transaction and showing the cost of execution
- Align our interests with yours by acting as a fiduciary
- Manage counterparty risk by trading with over 20 banks

In addition, you can take advantage of our foreign currency trading services whether you handle currency needs internally or delegate them to your investment managers. Our trading team executed FX trades in excess of €658 in 2019.

Employing an agent who is also a fiduciary has become more important as courts and regulators have become less patient with those who don't manage all their costs – including costs to trade foreign exchange – effectively. Investors can help manage these legal and regulatory risks by delegating responsibility to a currency trading agent who is also a fiduciary.

Russell Investments was also an early signatory of the FX Global Code which is a set of global principles of good practice designed to promote integrity and the effective functioning of the wholesale foreign exchange market.

Together or individually, these currency strategies are designed to lower transaction costs, minimise risk and reduce the operational burden of managing FX.

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## Significant scale and resources, available as an extension of your team



**90+**

Investment professionals  
located globally



**35** years

Experience in  
implementation services



**100+** markets

Ability to trade



Access research and resources related to  
currency management on our website  
[russellinvestments.com/institutional](https://russellinvestments.com/institutional).

## Recognised leader in currency management



### 2019 Currency Manager of the year at the European Pensions Awards

Russell Investments was named the winner of the “Currency Manager of the Year” at the 2019 European Pensions Awards. Chosen among 12 finalists in this category, Pensions Age and European Pensions cited Russell Investments’ “excellent commitment to improving outcomes for both its clients and the wider industry, with its unrivalled ability to manage currency risk, as well as reducing execution cost.”

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## For more information on our other customised portfolio services

Call Russell Investments at [+44\(0\)20 7024 6000](tel:+44(0)2070246000) or  
visit [russellinvestments.com](http://russellinvestments.com)

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