CLIENT CASE STUDY

Responsive Currency Hedging

Russell Investments

Organization

A large Japanese corporate pension fund had denominated currency assets consisting of 70% of their AUM and 80% of their foreign currency assets USD denominated (56% of AUM).

Challenge

The client maintains a sizable U.S. dollar–denominated asset portfolio and has long recognized foreign exchange exposure as a key risk within its total portfolio. Prior to engaging Russell Investments, the client employed multiple currency strategies, including an absolute return currency strategy and two U.S. dollar–Japanese yen dynamic hedging strategies from other providers.

While the client was generally satisfied with return outcomes, it identified several structural shortcomings in its existing currency hedging approach:

- **Concentration risk:** FX exposure remained heavily biased toward the U.S. dollar.
- **Limited responsiveness:** Existing dynamic hedging strategies did not increase hedge ratios quickly enough during periods of sharp yen appreciation.
- **Inefficient hedge floors:** Floor-based strategies required maintaining expensive, relatively high hedge ratios even when market conditions did not warrant them.
- **High hedging costs:** USD/JPY hedging costs exceeded 5% in the prior year, making persistent partial hedging costly during periods of yen depreciation.

As a result, the client sought a more responsive solution—one capable of rapidly adjusting hedge ratios while minimizing unnecessary hedging costs.

Solution

In response to the client's objectives, Russell Investments collaborated closely with its currency and FX research teams to adapt its existing informed currency dynamic hedging framework.

Key enhancements included:

- **Daily signal implementation:** Transitioning from monthly to daily rebalancing to significantly improve responsiveness to market movements.
- **No hedge floor:** Eliminating annual hedge floors to avoid structural inefficiencies and unnecessary hedging.
- **Enhanced signal design**: Incorporating volatility alongside carry, valuation and trend signals to better capture rapid shifts in currency dynamics.

- **Full hedge flexibility:** Allowing hedge ratios to move dynamically between 0% and 100% based solely on market signals.

Through an iterative process with the client, Russell Investments refined the strategy's parameters to align with the client's desired balance between protection during yen appreciation and cost efficiency during yen depreciation.

The client implemented the strategy in April 2025.

Results

Although past performance is not indicative of future results, early outcomes have demonstrated the intended responsiveness and differentiation relative to competing approaches.

- **Rapid adjustment:** At implementation, the strategy moved to a 100% hedge in response to heightened USD weakness and market volatility.
- **Dynamic de-risking:** As market conditions normalized, the strategy reduced the hedge ratio steadily and moved to a 0% hedge by mid-June—based on client reports at the time, we believe the strategy reduced its hedge earlier than some other approaches, although comparisons may vary depending on methodology, timing, and data sources.
- **Cost efficiency:** Remaining unhedged during subsequent yen depreciation allowed the client to benefit from currency movements while avoiding elevated hedging costs.

By contrast, the client's other dynamic hedging strategies maintained persistent partial hedges due to floor constraints, resulting in ongoing hedging expenses during a period when the yen weakened.[1]

Why it matters

For Japanese institutional investors facing volatile currency markets and elevated hedging costs, responsiveness and flexibility can be as important as return generation.

Russell Investments' responsive currency hedging solution was designed to:

- React quickly to sharp currency movements
- Avoid structural inefficiencies associated with hedge floors
- Reduce unnecessary hedging costs
- Complement existing currency strategies within a diversified framework

This case illustrates how tailored innovation—grounded in robust research and close client collaboration—can address specific portfolio challenges while seeking to improve overall risk management efficiency.

[1] Results analysis is based on the period of April 11, 2025 to March 31, 2026.

Where to next?

Call Russell Investments at 800-426-8506
or visit russellinvestments.com

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This case study represents a unique situation faced by a Japanese corporate pension fund that sought a way to adjust hedge ratios while minimizing unnecessary hedging costs. We select a situation that is indicative of problems clients in this category are facing. The recommendations described do not represent a standard strategy or set of recommendations made for all advisory clients with similar issues. Each client has unique requirements, challenges, and constraints, and our advisory solutions are tailored to each client's specific needs. Every client's situation, experience and needs are different, and Russell Investments does not imply that the solution herein is appropriate for any other client.

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