

## Portfolio and share class hedging analytics

### Gaining insight in your FX, duration and delta hedging performance



Deloitte has developed a hedging analysis tool for currency, duration and delta hedging at share class and portfolio/mandate level, which breaks down the various hedging impacts and helps correct any detected issue.

Requests from asset managers, institutional clients such as pension funds, auditors and other related parties are increasing in the field of **FX hedging** performance as well as **duration hedging** and **delta hedging**.

Examples range from providing a relevant **justification of the performance difference** between an unhedged class and a **hedged class** to the monitoring of the **duration** or **delta/beta** of these strategies.

Fund managers are also looking for an **independent** view and for **reporting capabilities** on any hedging impact in order to gain some assurance on the explanation provided by their fund administrators or hedging service provider.

When analysing the hedging performance, one must include all of the following dimensions: process, timing, accounting and execution.

This kind of service requires an in-depth analysis of the **process** as all hedges are not the same (e.g. NAV hedging/Direct Hedging). That is why Deloitte has developed a flexible solution, which can analyse hedging impacts by going through every contract.

Undetected issues in a **passive hedging strategy** can lead to significant deviation in the long-term performance.

However, some FX hedging structures can also be designed to **capture some alpha** at the portfolio or even at share class level through **carry trade strategies** or **overlay strategies**. Deloitte has the ability to provide performance analysis for such structures and validate it independently.

On top of this, our tool is able to simulate the hedging performance with 'what if' scenarios based on different parameters of the hedging process.

## Our approach

- Deloitte has started to develop this portfolio and share class hedging analytics service offer since more than 10 years ago. Our credentials include more than 100 consulting and audit clients including top tier asset managers in Luxembourg and in Europe.
- Our service offer consists of the review of the hedging process and analysis of the performance to identify the various sources of **performance deviation** from the duration hedging, delta hedging or/and FX hedging impacting the portfolio, mandate, index fund or share class.
- For FX hedging, we can analyse up to **seven sources of FX hedging impacts** based on the parameters of the hedging structure and process. Deloitte can use **professional TCA services** to monitor the execution of hedging contracts.
- For duration hedging and delta hedging, we can analyse the hedging at different levels:
  - **Strategic**: review of the hedging vehicle, chosen indices, number of contracts used
  - **Structural**: monitoring of the duration, delta or beta for compliance check of the target range
  - **Tactical**: independent performance analysis and ex-post scenario simulation
- Our reports mention all our observations and specific **recommendations** based on **new trends** and **best market practices**. Our team can provide assistance in the **implementation** of these recommendations.

## How can we help?

- Deloitte provides different hedging analytics services either as a frequent reporting or on an ad-hoc basis for three types of hedging at different levels:



- Our analysis can be supplemented with some **'what if' scenarios** in order to simulate the hedging performance with other key parameters of the hedging process.
- For FX hedging, we do not only analyse the performance of passive hedging strategies but **active FX hedging strategies** as well, such as **overlay** strategies and **carry trade** strategies
- For active strategies, we offer ancillary services of independent **performance measurement** of the hedging strategy and the portfolio.

## Our contacts



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